

NEW ISSUE – Book Entry Only



**\$112,200,000**  
**BRAZOS EDUCATION LOAN AUTHORITY, INC.**

**STUDENT LOAN ASSET-BACKED NOTES**  
**Series 2012A-1**

Brazos Education Loan Authority, Inc., a Texas non-profit corporation, is offering its student loan asset-backed notes, Series 2012A-1 as Class A notes in the principal amount set forth below:

<u>Series</u>	<u>Original Principal Amount</u>	<u>Interest Rate</u>	<u>Final Maturity Date</u>	<u>Price to Public</u>	<u>Proceeds to the Issuer<sup>(1)</sup></u>
series 2012A-1 notes .....	\$ 112,200,000	1-month LIBOR plus 0.70%	December 26, 2035	97.226%	\$109,087,572

<sup>(1)</sup> Before deducting expenses, estimated to be \$1,174,820.

We will be issuing the Class A notes pursuant to a discrete indenture of trust with U.S. Bank National Association, as indenture trustee and as eligible lender trustee. We will also be issuing subordinate Class B notes pursuant to the indenture. The Class A notes and the subordinate Class B notes will be secured by a pool of student loans made under the Federal Family Education Loan Program and the Health Education Assistance Loan Program, along with rights we have under certain agreements with others, a cash reserve fund and the other moneys and investments pledged to the indenture trustee. After we issue the Class A notes and the subordinate Class B notes described herein, no additional notes or other obligations will be issued under the indenture.

The Class A notes are LIBOR-based notes. A description of how LIBOR is determined appears under “*DESCRIPTION OF THE CLASS A NOTES—Determination of LIBOR*” in this offering memorandum. Interest and principal on the Class A notes will be payable monthly on the 25th day (or if such day is not a business day, the next business day) of each calendar month, beginning in October 2012.

In general, we will pay principal sequentially to the Class A notes and the subordinate Class B notes, in that order, until each such class is paid in full.

Credit enhancement for the Class A notes consists of excess interest, cash on deposit in a reserve account and the subordination of the subordinate Class B notes.

It is a condition to the sale of the Class A notes that they be rated “AAAsf” by Fitch Ratings and “AA+(sf)” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. 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.

The subordinate Class B notes referred to herein are not being offered pursuant to this offering memorandum. See “*CREDIT ENHANCEMENT—The Subordinate Class B Notes*” in this offering memorandum for a description of the subordinate Class B notes. It is a condition to the issuance of the subordinate Class B notes that they be rated at least “Asf” by Fitch Ratings.

**The Class A notes are special, limited obligations of Brazos Education Loan Authority, Inc. The Class A notes, together with the subordinate Class B notes, are payable solely from and secured solely by the trust estate created under the indenture described herein. The Class A notes are not general obligations of Brazos Education Loan Authority, Inc.**

We are not offering the Class A notes in any state or jurisdiction where the offer is prohibited.

**UPON ISSUANCE, THE CLASS A NOTES WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933 AND WILL NOT BE LISTED ON ANY STOCK OR OTHER SECURITIES EXCHANGE. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE OR OTHER GOVERNMENTAL ENTITY OR AGENCY WILL HAVE PASSED ON THE ACCURACY OF THIS OFFERING MEMORANDUM OR APPROVED THE CLASS A NOTES FOR SALE. ANY CONTRARY REPRESENTATION IS A CRIMINAL OFFENSE. THE INDENTURE WILL NOT BE QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939.**

**You should carefully consider the risk factors  
beginning on page 12 of this offering memorandum.**

The placement agents named below are offering the Class A notes subject to approval of certain legal matters by their counsel. The Class A notes will be delivered in book-entry form on or about August 8, 2012, against payment in immediately available funds.

**Morgan Stanley**  
(Lead Placement Agent)

**BofA Merrill Lynch**  
(Co-Placement Agent)

The date of this offering memorandum is August 2, 2012

**IMPORTANT NOTICE ABOUT THE INFORMATION PRESENTED  
IN THIS OFFERING MEMORANDUM**

You are urged to read this offering memorandum in full to obtain information concerning the Class A notes.

Cross-references are included in this offering memorandum to captions in this document where you can find further discussions about related topics. The table of contents on the back cover page of this offering memorandum indicates the pages on which these captions are located.

Unless otherwise indicated, references in this offering memorandum to:

- “the Class A notes” or “the series 2012A-1 notes” refer to the Senior LIBOR Floating Rate Student Loan Asset-Backed Notes, Series 2012A-1 offered pursuant to this offering memorandum;
- “the subordinate Class B notes” or “the series 2012B-1 notes” refer to the Subordinate LIBOR Floating Rate Student Loan Asset-Backed Notes, Series 2012B-1 issued under the indenture;
- “the notes” refer to all of the notes issued under the indenture, including the Class A notes and the subordinate Class B notes;
- “FFELP loans” refer to loans made under the Federal Family Education Loan Program to students and parents of students;
- “HEAL loans” refer to loans made under the Health Education Assistance Loan Program for health education assistance loans;
- “student loans” refer to FFELP loans and HEAL loans;
- “we,” “us,” “our,” and “the issuer” refer to Brazos Education Loan Authority, Inc., the issuer of the notes;
- “indenture” refers to the Indenture of Trust dated as of August 1, 2012 among the issuer, the indenture trustee and the eligible lender trustee, which authorized the issuance of the Class A notes;
- “indenture trustee” and “eligible lender trustee” refer to U.S. Bank National Association;
- “master servicer” refers to The Brazos Higher Education Service Corporation, Inc., the master servicer of the student loans; and
- “the placement agents” refer to Morgan Stanley & Co. LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, the placement agents for the Class A notes.

Additional terms used in this offering memorandum are defined in the Glossary of Defined Terms attached to this offering memorandum as Appendix A.

**It is a condition to the sale of the Class A notes that the subordinate Class B notes be issued under the indenture. The subordinate Class B notes referred to herein are not being offered pursuant to this offering memorandum. See “CREDIT ENHANCEMENT—The Subordinate Class B Notes” in this offering memorandum for a description of the subordinate Class B notes.**

## SUMMARY

The following summary highlights selected information about the Class A notes and may not contain all of the information that you may find important in making your investment decision. The remainder of this offering memorandum contains more detailed terms about the Class A notes. You are strongly encouraged to read this entire offering memorandum before making your investment decision.

### General

The Class A notes will be issued pursuant to a discrete indenture and will be senior (Class A) notes having the rights described in this offering memorandum. The Class A notes will be the only series of notes offered pursuant to this offering memorandum. We refer to the date of issuance of the Class A notes as the closing date.

We will use the proceeds from the sale of the Class A notes to make deposits to the accounts created under the indenture, including a deposit to the reserve account, a deposit to the student loan account and a deposit to the collection account, and to pay costs of issuing the notes. See *“USE OF PROCEEDS”* in this offering memorandum. The issuer will use the amounts on deposit in the student loan account to purchase a pool of student loans. The student loans to be purchased are education loans to students and parents of students made under the Federal Family Education Loan Program, known as FFELP, and health education assistance loans made under the Health Education Assistance Loan Program, known as HEAL.

On the closing date, the subordinate Class B notes will also be issued pursuant to the indenture. The subordinate Class B notes are not being offered pursuant to this offering memorandum. See *“CREDIT ENHANCEMENT—The Subordinate Class B Notes”* in this offering memorandum for a description of the subordinate Class B notes.

The Class A notes offered by this offering memorandum will be the only series of class A notes outstanding under the indenture and the subordinate Class B notes will be the only series of subordinate class B notes outstanding under the indenture. On the closing date, the Class A notes and the subordinate Class B notes will be the only notes outstanding under the indenture. After the closing date, no additional notes or other obligations will be issued under the indenture.

All of the student loans we expect to purchase with a portion of the proceeds of the Class A notes on the closing date will be pledged to the indenture trustee to secure repayment of all of the notes issued under the indenture. Except for any substitutions or acquisitions of student loans as described under *“DESCRIPTION OF THE INDENTURE—Pledge of Certain Rights”* and *“—Sale of Student Loans Held in the Trust Estate,”* the only student loans to be pledged to the indenture trustee under the indenture are the student loans described herein, and there will be no subsequent acquisitions of or recycling of student loans into the trust estate under the indenture.

The sole source of funds for payment of the notes issued under the indenture are the student loans and the investments that we pledge to the indenture trustee and the payments that we receive on those student loans and investments.

### Principal Parties

- Issuer..... Brazos Education Loan Authority, Inc., a Texas non-profit corporation located in Waco, Texas.
- Master Servicer..... The Brazos Higher Education Service Corporation, Inc., a Texas non-profit corporation located in Waco, Texas, will act as the master servicer of the student loans held in the trust estate.
- Subservicers..... Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency, Sallie Mae, Inc. and Xerox Education Services, Inc. (f/k/a ACS Education Services, Inc.) each will initially act as a subservicer of the student loans held in the trust estate. After the closing date, student loans held under the indenture will be permitted to be subserviced by Brazos Loan Servicing, Inc. The issuer expects that student loans that have an aggregate principal balance equal to no greater than 10% of the Initial Pool Balance will be converted to Brazos Loan Servicing, Inc. for subservicing after the closing date. Under the terms of the indenture, student loans may not be converted to Brazos Loan Servicing, Inc. for subservicing if, after such conversion, the aggregate principal amount of student

loans subserviced by Brazos Loan Servicing, Inc. would exceed 10% of the Initial Pool Balance unless a Rating Confirmation is obtained. Nelnet Servicing, LLC will act as the back-up subservicer with respect to any student loans subserviced by Brazos Loan Servicing, Inc. In addition, student loans held under the indenture are also permitted to be subserviced by any additional subservicers provided that (i) the indenture trustee has received a Rating Confirmation with respect to using any such additional subservicers and (ii) if any Class A notes are outstanding (A) the additional subservicer at the time of such addition ranks among the top five servicers of student loans by outstanding principal amount of U.S. student loans serviced based upon publicly available information at that time, or (B) the issuer sends written notice of the identity of the proposed additional subservicer to each Class A noteholder at the address shown on the registration books of the indenture trustee and, within 30 days following the mailing of such written notice, the issuer does not receive from the Class A noteholders of not less than one-third of the principal amount of the Class A notes then outstanding a signed writing objecting to such proposed additional subservicer.

- Indenture Trustee ..... Under the indenture, U.S. Bank National Association will act as indenture trustee for the benefit of and to protect the interests of the holders of notes and will act as paying agent for the notes.
- Eligible Lender Trustee..... U.S. Bank National Association, as eligible lender trustee, will hold legal title to the FFELP loans and the HEAL loans held in the trust estate under an eligible lender trust agreement.
- Placement Agents..... Morgan Stanley & Co. LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated will be the placement agents for the Class A notes.
- Guarantors..... The FFELP loans will be guaranteed by one of the guarantors listed in this offering memorandum under “*REGARDING THE STUDENT LOANS—Description of Guarantee Agencies for the FFELP Loans.*”
- HEAL Loan Insurance ..... The HEAL loans will be insured by the federal government acting through the Secretary of Health and Human Services pursuant to the Health Education Assistance Loan Program under the Public Health Service Act. See “*DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM*” in this offering memorandum.

**The Offered Notes**

The issuer is offering the Senior LIBOR Floating Rate Student Loan Asset-Backed Notes, Series 2012A-1, in the amount of \$112,200,000.

**Dates**

**Closing Date.** The closing date for this offering is expected to be on or about August 8, 2012.

**Statistical Cut-off Date.** In this offering memorandum, we have presented information relating to the total portfolio of student loans that we intend to acquire with a portion of the proceeds of the Class A notes on the closing date. Information relating to this portfolio of student loans presented herein is as of the statistical cut-off date, which is the close of business on June 30, 2012. We believe that the information set forth in this offering memorandum with respect to those student loans as of the statistical cut-off date is representative of the characteristics of those student loans as they will exist on the closing date, although certain characteristics of the student loans may vary. See “*CHARACTERISTICS OF THE STUDENT LOANS*” in this offering memorandum.

**Distribution Dates.** The distribution dates for the notes are the 25th of each month, beginning in October 2012. If any 25th calendar day is not a business day, the distribution date will be the next business day. We refer to these dates as “distribution dates.”

**Monthly Allocation Dates.** On or prior to the 25th day of each month, the indenture trustee will make certain allocations of the funds on deposit in the collection account. See “—Administration of the Trust Estate—Monthly Allocations” in this summary. We refer to the day of each month on which those allocations are made as the “monthly allocation date.”

**Monthly Expense Payment Dates.** On or after the 25th day of each month, the indenture trustee will pay certain expenses related to the notes and the student loans held in the trust estate, including rebate fees to the Secretary of Education, amounts required to be paid to guarantee agencies and the fees of each subservicer, the indenture trustee, the eligible lender trustee, the rating agencies and the master servicer. See “—Administration of the Trust Estate—Distributions” in this summary. We refer to those fees as the “monthly issuer fees” and to the day of each month on which those fees are paid as the “monthly expense payment date.” See “—Monthly Issuer Fees” in this summary.

**Record Date.** Interest and principal will be payable to holders of record as of the close of business on the record date which, for the Class A notes, is the day before the related distribution date. We refer to these dates as “record dates.”

### **Information about the Notes**

The Class A notes are special, limited obligations of Brazos Education Loan Authority, Inc. The Class A notes are payable solely from and secured solely by the trust estate created under the indenture and described herein. The Class A notes are not general obligations of Brazos Education Loan Authority, Inc.

**Interest Payments.** The Class A notes are LIBOR-based notes. Interest will accrue generally on the principal balance of the Class A notes during one-month accrual periods and will be paid on distribution dates but only to the extent that there are Available Funds remaining after all prior required distributions as described in this summary below under “—Administration of the Trust Estate—Distributions.”

An accrual period for the Class A notes begins on a distribution date and ends on the day before the next distribution date. The first accrual period for the Class A notes, however, will begin on the closing date and end on the day before the first distribution date.

**Interest Rates.** Except for the first accrual period, the Class A notes will bear interest at a rate equal to one-month LIBOR plus 0.70% per annum.

LIBOR for the first accrual period for the Class A notes will be determined by the following formula:

$$x + [a/b * (y - x)]$$

where:

x = two-month LIBOR;  
y = three-month LIBOR;

a = the actual number of days from the maturity date of two-month LIBOR to the first distribution date; and

b = the actual number of days from the maturity date of two-month LIBOR and the maturity date of three-month LIBOR.

LIBOR will be determined on the days specified in this offering memorandum under “DESCRIPTION OF THE CLASS A NOTES—Determination of LIBOR.” For the Class A notes, we will calculate interest based on the actual number of days elapsed in each accrual period divided by 360.

**Principal Payments.** On each distribution date, any Available Funds remaining after all prior required distributions as described in this summary below under “—Administration of the Trust Estate—Distributions” will be used to pay principal on the Class A notes and the subordinate Class B notes, in that order, until their respective outstanding principal amounts are reduced to zero. As a result of the priority of payments, no payments of principal on the subordinate Class B notes will be made until the outstanding principal amount of the Class A notes has been reduced to zero.

The entire unpaid principal amount of the Class A notes will be due and payable, if not previously paid, on the final maturity date for the Class A notes.

See “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions*” in this offering memorandum for a more detailed description of principal payments. See also “*DESCRIPTION OF THE INDENTURE—Events of Default*” and “*—Remedies on Default*” in this offering memorandum for a description of the cash flows following the occurrence of an event of default that has resulted in an acceleration of the maturity of the notes.

**Maturity Date.** The Class A notes will mature no later than December 26, 2035.

**Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes.** The projected weighted average life, expected maturity date and percentages of remaining principal amount of the Class A notes under various assumed prepayment scenarios are set forth in this offering memorandum in “*APPENDIX D—Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes.*”

**Subordination of the Subordinate Class B Notes.** On any distribution date, payments of Class B Noteholders’ Interest Distribution Amount on the subordinate Class B notes will be subordinate to the payment of interest on the Class A notes and to the payment of principal due and payable on the final maturity date for the Class A notes. No payments of principal on the subordinate Class B notes will be made on any distribution date until the outstanding principal amount of the Class A notes has been reduced to zero. See “*CREDIT ENHANCEMENT—The Subordinate Class B Notes*” in this offering memorandum.

**Class B Noteholders’ Interest Cap.** The subordinate Class B notes will be LIBOR-based notes as described herein. Interest distributions on the subordinate Class B notes, however, are subject to the Class B Noteholders’ Interest Cap, which, for any distribution date (other than the first distribution date on the subordinate Class B notes for which Class B Noteholders’ Interest Cap will not apply), may result in the Class B Interest Accrual Amount for the subordinate Class B notes exceeding the Class B Noteholders’ Interest Distribution Amount for the subordinate Class B notes. Any such excess is referred to herein as the Class B Noteholders’ Carry-Over Amount. No payments of Class B Noteholders’ Carry-Over Amount on the subordinate Class B notes will be made on any distribution date until the outstanding principal amount of the Class A notes has been reduced to zero and the outstanding principal amount of the subordinate Class B notes has been reduced to zero. See “*CREDIT ENHANCEMENT—The Subordinate Class B Notes*” in this offering memorandum.

**Losses and Shortfalls.** Credit enhancement for the Class A notes consists of excess interest, cash on deposit in a reserve account and the subordination of the subordinate Class B notes. See “*CREDIT ENHANCEMENT*” in this offering memorandum. If and to the extent that any losses in collections on the student loans are not covered or offset by credit enhancement, those losses will not be allocated to write down the principal amount of any class of notes. Instead, the amount available to make payments on the notes will be reduced to the extent such losses result in shortfalls in the amount available to make distributions of interest and principal. Such shortfalls will be borne first by the holders of the subordinate Class B notes and then by the holders of the Class A notes. To the extent that any shortfalls in cash flows result in losses that exceed the available credit enhancement for the Class A notes, holders of the Class A notes will not receive their entire principal amount. See “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions*” in this offering memorandum.

**Denominations.** We will issue the Class A notes in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof. The Class A notes will be available only in book-entry form through The Depository Trust Company. You will not receive a certificate representing your Class A notes except in very limited circumstances.

**Security for the Notes.** The notes will be secured by the trust estate created pursuant to the indenture. The assets held in the trust estate will consist primarily of FFELP loans made under the Federal Family Education Loan Program, and HEAL loans made under the Health Education Assistance Loan Program. See “*SECURITY AND SOURCES OF PAYMENT FOR THE NOTES*” in this offering memorandum.

#### **Security and Sources of Payment for the Notes**

**General.** A trust estate will be created pursuant to the indenture. The lien on the trust estate securing the subordinate Class B notes is junior and subordinate to the lien securing the Class A notes. The assets of the trust estate include:

- the student loans;
- collections and other payments on the student loans; and
- funds held in trust accounts under the indenture, including a student loan account (including a costs of issuance subaccount therein), a collection account, a reserve account and a distribution account.

**Student Loans.** The student loans are education loans to students and parents of students made under the Federal Family Education Loan Program, known as FFELP, and health education assistance loans made under the Health Education Assistance Loan Program, known as HEAL. Except for any substitutions or acquisitions of student loans as described under “*DESCRIPTION OF THE INDENTURE—Pledge of Certain Rights*” and “*—Sale of Student Loans Held in the Trust Estate,*” the only student loans to be pledged to the indenture trustee under the indenture are the student loans described herein, and there will be no subsequent acquisitions of or recycling of student loans into the trust estate under the indenture.

The student loans had an aggregate principal balance, including accrued interest to be capitalized, of approximately \$115,975,503.50 as of the statistical cut-off date. The student loans had an outstanding principal balance due from borrowers (excluding accrued interest to be capitalized) of approximately \$115,415,725.81 as of the statistical cut-off date. As of the statistical cut-off date, the weighted average annual borrower interest rate of the student loans was approximately 3.977% and their weighted average remaining term to scheduled maturity was approximately 193 months. See “*CHARACTERISTICS OF THE STUDENT LOANS*” in this offering memorandum. The weighted average annual borrower interest rate of the student loans may become lower as a result of payment reduction on certain of our student loans due to participation in borrower incentive programs or prepayment of student loans with higher interest rates.

See “*REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans*” in this offering memorandum.

Guarantee agencies described in this offering memorandum guarantee all of the FFELP loans. The FFELP loans are reinsured by the United States Department of Education. See “*REGARDING THE STUDENT LOANS—Description of Guarantee Agencies for the FFELP Loans.*” Special allowance payments on the FFELP loans are based on certain formulas described in this offering memorandum under “*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments.*”

Under the Health Education Assistance Loan Program, insurance provided by the Secretary of Health and Human Services generally covers 98% of the lender’s losses on both unpaid principal and interest except to the extent a borrower may have a defense on the loans. See “*DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM*” in this offering memorandum.

**Collection Account.** The indenture trustee will establish and maintain the collection account under the indenture. The indenture trustee will deposit into the collection account all collections on the student loans, including all interest subsidy payments and special allowance payments.

For any distribution date, the related collection period is the prior calendar month. However, the first collection period will begin on the closing date and end on September 30, 2012.

**Distribution Account.** The indenture trustee will establish and maintain the distribution account under the indenture. The indenture trustee will deposit specified amounts on deposit in the collection account into the distribution account as set forth in this summary under “*—Administration of the Trust Estate—Monthly Allocations.*”

**Excess Interest.** Excess interest (as part of all interest collections) will be collected and deposited into the collection account and will become part of the Available Funds. There can be no assurance as to the rate, timing or amount, if any, of excess interest. See “*CREDIT ENHANCEMENT—Excess Interest*” in this offering memorandum.

**Parity Percentage.** In this offering memorandum, (a) the Class B parity percentage refers to the ratio (expressed as a percentage) of the value of the assets in the trust estate, less accrued unpaid interest (other than Class B Noteholders’ Carry-Over Amount, if any) and fees with respect to all our notes, to the principal amount of all our Class A notes and subordinate Class B notes outstanding and (b) the Class A parity percentage refers to the ratio (expressed as a percentage) of the value of the assets in the trust estate, less accrued unpaid interest (other than Class B Noteholders’ Carry-Over Amount, if any) and fees with respect to all our notes, to the principal amount of all our Class A notes outstanding.

Based on information relating to the portfolio of student loans as of the statistical cut-off date, and after giving effect to all deposits and distributions described under “*USE OF PROCEEDS,*” on the closing date we expect the Class B parity percentage to be approximately 100.9% and the Class A parity percentage to be approximately 103.6%.

For purposes of these calculations, the value of the assets in the trust estate are calculated as the sum of (i) 100% of the unpaid principal amount of the pledged student loans, plus any accrued but unpaid interest thereon, (ii) the amount of cash held in any pledged accounts maintained under the indenture (excluding any amounts on deposit in the costs of issuance subaccount of the student loan account) and (iii) with respect to the investment of pledged funds pursuant to an investment contract, the bid price of the

applicable shares as reported by the related investment company. See “*CREDIT ENHANCEMENT—Parity Percentage*” in this offering memorandum.

The student loans actually pledged under the indenture on the closing date will have characteristics that differ somewhat from the characteristics of the student loans described herein due to payments received on and other changes in these loans that occur during the period from the statistical cut-off date to the closing date. These changes could result in the actual Class B parity percentage and Class A parity percentage on the closing date to vary somewhat from the estimated Class B parity percentage and Class A parity percentage set forth above. However, we do not expect that the actual Class B parity percentage or Class A parity percentage on the closing date will differ materially from the estimated percentages set forth above.

**Reserve Account.** The indenture trustee will establish and maintain the reserve account under the indenture. The indenture trustee will make a deposit into the reserve account on the closing date in the amount identified in this offering memorandum under “*USE OF PROCEEDS*.” Following this deposit, cash or eligible investments equal to the Reserve Account Requirement will be on deposit in the reserve account unless otherwise depleted in accordance with the terms of the indenture as described below. The Reserve Account Requirement is the amount required to be maintained in the reserve account. The Reserve Account Requirement means (a) on the closing date, the amount of the initial deposit into the reserve account and (b) on any distribution date, the greater of 0.25% of the Pool Balance as of the last day of the related collection period or 0.15% of the Initial Pool Balance. In no event will the Reserve Account Requirement exceed the outstanding balance of all of the notes issued under the indenture.

Amounts remaining in the reserve account at the end of any collection period in excess of the Reserve Account Requirement will be deposited into the collection account and included as Available Funds for the following distribution date.

Funds in the reserve account may be replenished on each distribution date by additional funds available after all prior required distributions have been made. See “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions*” in this offering memorandum.

The reserve account will be available on each distribution date to cover any shortfalls in payments of the (i) Class A Noteholders’ Interest Distribution Amount, and (ii) Class B Noteholders’ Interest Distribution Amount.

In addition, the reserve account will be available:

- (a) on the maturity date for the Class A notes, to cover shortfalls in payments of principal of and accrued interest on the Class A notes; and
- (b) if Class A notes are no longer outstanding, on the maturity date for the subordinate Class B notes, to cover shortfalls in payments of principal of and accrued interest on the subordinate Class B notes.

The reserve account enhances the likelihood of payment to the holders of notes. In certain circumstances, however, the reserve account could be depleted. This depletion could result in shortfalls in distributions to the holders of the notes.

If the amount in the reserve account, together with other amounts on deposit in the pledged accounts held under the indenture, on any distribution date are sufficient to pay the remaining principal and interest accrued on the notes (excluding payment of any Class B Noteholders’ Carry-Over Amount with respect to the subordinate Class B notes, provided that any unpaid Class B Noteholders’ Carry-Over Amount will remain outstanding until it is paid or until the balances in the accounts held under the indenture and the Pool Balance have each been reduced to zero), such amounts on deposit will be so applied on that distribution date. See “*CREDIT ENHANCEMENT—Reserve Account*” in this offering memorandum.

**Student Loan Account.** The indenture trustee will establish and maintain the student loan account under the indenture. The student loan account also will contain a costs of issuance subaccount. The indenture trustee will make a deposit into the student loan account and a deposit into the costs of issuance subaccount on the closing date in the amounts identified in this offering memorandum under “*USE OF PROCEEDS*.” Using the amounts on deposit in the student loan account, we expect to purchase a portfolio of student loans on the closing date. The student loans will be pledged to the trust estate created under the indenture. Certain information relating to the portfolio of student loans expected to be acquired under the indenture with a portion of the proceeds of the Class A notes on the closing date is provided in this offering memorandum under “*CHARACTERISTICS OF THE STUDENT LOANS*.” Except for any substitutions or acquisitions of student loans as described under “*DESCRIPTION OF THE INDENTURE—Pledge of Certain Rights*” and “*—Sale of Student Loans Held in the Trust Estate*,” the only student loans to be pledged to the indenture trustee under the indenture are the student loans described herein, and there will be no subsequent acquisitions of or recycling of student loans into the trust estate under the indenture. The indenture trustee will disburse the amounts on deposit in the costs of issuance subaccount to pay the costs of issuance of the notes.



## Administration of the Trust Estate

**Monthly Allocations.** On or prior to each monthly allocation date, the indenture trustee will make the following allocations with funds on deposit in the collection account:

- *first*, deposit into the distribution account for the Secretary of Education, (i) an amount equal to the monthly rebate fee payable to the Secretary of Education expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as described in this summary under “—Distributions” and (ii) an amount equal to any required repayments to the Secretary of Education, if any, resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as described in this summary under “—Distributions”;
- *second*, deposit into the distribution account for any guarantee agency, pro rata, an amount equal to payments required to be made with respect to any FFELP loans under the applicable guarantee agreement and the Higher Education Act expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;
- *third*, deposit into the distribution account for each subservicer, pro rata, an amount equal to their fees expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;
- *fourth*, deposit into the distribution account for the indenture trustee, the eligible lender trustee and each rating agency, pro rata, an amount equal to their fees and expenses expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts; and
- *fifth*, deposit into the distribution account for the master servicer, the amount of the Administration Fee and any Additional Fees expected to be payable to the master servicer from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts.

**Distributions.** On each monthly expense payment date, the indenture trustee will pay the following fees from amounts on deposit in the distribution account and allocated to the payment of those fees, and to the extent of any insufficiency, from amounts on deposit in the collection account: (i) the monthly rebate fee to the Secretary of Education at an annualized rate generally equal to 1.05% on principal of and interest on Federal Consolidation Loans described in this offering memorandum under “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Fees—Rebate Fee on Federal Consolidation Loans” and any required repayment to the Secretary of Education resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, as described in this offering memorandum under “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Recapture of Excess Interest,” (ii) pro rata, the amounts payable to any guarantee agency with respect to the FFELP loans, (iii) pro rata, the fees of each subservicer, (iv) pro rata, the fees and expenses of the indenture trustee, the eligible lender trustee and each rating agency, and (v) the Administration Fees of the master servicer and any Additional Fees payable to the master servicer.

On each distribution date, the indenture trustee will make the deposits and distributions set forth below, in the amounts and in the order of priority shown below, except as otherwise provided in this offering memorandum under “CREDIT ENHANCEMENT—The Subordinate Class B Notes—Subordination of the Subordinate Class B Notes.” These deposits and distributions will be made from and to the extent of the Available Funds on that distribution date after payment of the amounts set forth in the immediately preceding paragraph during the related collection period; and from amounts transferred from the reserve account with respect to clauses (a) and (c) below on that distribution date and with respect to the payment of principal on the notes at their final maturities.

- (a) to the holders of Class A notes, the Class A Noteholders’ Interest Distribution Amount;
- (b) to the holders of Class A notes, the amounts, if any, necessary to pay principal on the Class A notes due on such distribution date as a result of the final maturity thereof;
- (c) to the holders of subordinate Class B notes, the Class B Noteholders’ Interest Distribution Amount;
- (d) to the reserve account, the amount, if any, necessary to reinstate the balance of the reserve account to the Reserve Account Requirement;

- (e) to the holders of Class A notes, to pay principal until the outstanding principal amount of the Class A notes is reduced to zero;
- (f) to the holders of subordinate Class B notes, to pay principal until the outstanding principal amount of the subordinate Class B notes is reduced to zero;
- (g) to the holders of subordinate Class B notes, the Class B Noteholders' Carry-Over Amount;
- (h) to any subservicer, the indenture trustee, the eligible lender trustee, the rating agencies and the master servicer, ratably, for all amounts due to each of them and not previously paid;
- (i) to the master servicer, any Reimbursement Payments; and
- (j) to the residual certificateholder, any remaining amounts after application of the preceding clauses.

All principal and interest payments on the notes will be made pro rata to the specific noteholders entitled thereto.

See “*DESCRIPTION OF THE INDENTURE—Events of Default*” and “*—Remedies on Default*” in this offering memorandum for a description of the cash flows following the occurrence of an event of default that has resulted in an acceleration of the maturity of the notes.

No amounts will be transferred from the collection account to the residual certificateholder until the outstanding principal amount of each class of notes has been reduced to zero. The issuer will be the residual certificateholder on the closing date.

#### **Monthly Issuer Fees**

The indenture trustee will make payments of certain fees and expenses prior to distributions of principal and interest on the notes. Those fees and expenses include payments to the Secretary of Education as rebate fees, the guarantee agencies, each subservicer, the indenture trustee, the eligible lender trustee, the rating agencies and the Administration Fee and any Additional Fees payable to the master servicer. See “*DESCRIPTION OF THE CLASS A NOTES—Monthly Issuer Fees*” in this offering memorandum for a more detailed description of monthly issuer fees. These payments also include any required repayment to the Secretary of Education resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, as described in this offering memorandum under “*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Recapture of Excess Interest*.” The issuer does not expect to pledge any such loans on the closing date. Administration Fees, any Additional Fees payable to the master servicer and subservicer fees will be paid on each monthly expense payment date by the indenture trustee as described in this summary under “*—Administration of the Trust Estate—Distributions*.”

#### **Servicing of the Student Loans**

The Brazos Higher Education Service Corporation, Inc., as the master servicer, will be responsible for servicing and making collections on the student loans. It will also bill and collect payments from the guarantee agencies, the Department of Education and the Secretary of Health and Human Services. With respect to the student loans pledged under the indenture, the master servicer will initially perform its servicing obligations through separate subservicing agreements with each of Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency, Sallie Mae, Inc. and Xerox Education Services, Inc. (f/k/a ACS Education Services, Inc.). See “*THE MASTER SERVICER*” in this offering memorandum. After the closing date, student loans held under the indenture will be permitted to be subserviced by Brazos Loan Servicing, Inc. The issuer expects that student loans that have an aggregate principal balance equal to no greater than 10% of the Initial Pool Balance will be converted to Brazos Loan Servicing, Inc. for subservicing after the closing date. Under the terms of the indenture, student loans may not be converted to Brazos Loan Servicing, Inc. for subservicing if, after such conversion, the aggregate principal amount of student loans subserviced by Brazos Loan Servicing, Inc. would exceed 10% of the Initial Pool Balance unless a Rating Confirmation is obtained. Pursuant to a back-up subservicing agreement, Nelnet Servicing, LLC will act as the back-up subservicer with respect to any student loans subserviced by Brazos Loan Servicing, Inc. In addition, student loans held under the indenture are also permitted to be subserviced by any additional subservicers provided that (i) the indenture trustee has received a Rating Confirmation with respect to using any such additional subservicers and (ii) if any Class A notes are outstanding (A) the additional subservicer at the time of such addition ranks among the top five servicers of student loans by outstanding principal amount of U.S. student loans serviced based upon publicly available information at that time, or (B) the issuer sends written notice of the identity of the proposed additional subservicer to each Class A noteholder at the address shown on the registration books of the indenture trustee and, within 30 days following the mailing of such written notice, the issuer does not receive from the Class A noteholders of not less than one-third of the principal amount of the Class A notes then outstanding a signed writing objecting to such proposed additional subservicer.

### **Compensation of the Master Servicer**

The master servicer will receive an Administration Fee equal to 0.25% per annum of the average monthly outstanding principal balance of student loans held in the trust estate under the indenture. The Administration Fee payable to the master servicer does not include any fees or other amounts due to other third parties. Under the back-up subservicing agreement, the master servicer is required to pay from its general funds on behalf of the issuer the annual maintenance fee of the back-up subservicer, if any, and any such amounts also may be paid as Ancillary Subservicing Fees under the indenture. See “*REGARDING THE STUDENT LOANS—Description of Subservicers*” in this offering memorandum. The master servicer also may receive Additional Fees as compensation for directly performing certain servicing obligations that would otherwise be performed by a subservicer. Any such Additional Fees paid to the master servicer, however, may not exceed the amount that otherwise would have been paid to a subservicer for performing those servicing obligations. The Administration Fee and any Additional Fees are payable from the trust estate prior to the payment of principal and interest on the notes as described in this summary under “*—Administration of the Trust Estate—Distributions.*”

After the notes are paid in full, the master servicer is also entitled to receive Reimbursement Payments before any amounts are released to the residual certificateholder as described in this summary under “*—Administration of the Trust Estate—Distributions.*” “Reimbursement Payments” refer to any amounts that may become payable by the issuer to the master servicer (that are in addition to the Administration Fee and any Additional Fees) as reimbursements for any liabilities, costs or expenses that may be incurred by the master servicer with respect to the performance by the master servicer of any extraordinary services requested by the issuer relating to the indenture or the master servicing agreement or as additional compensation as may be mutually agreed to from time to time by the master servicer and the issuer.

### **Termination of the Trust Estate**

The trust estate created under the indenture will terminate upon the later of:

- the maturity or other liquidation of the last student loan and the disposition of any amount received upon its liquidation; and
- the payment of all amounts required to be paid to the holders of notes.

See “*DESCRIPTION OF THE INDENTURE—Satisfaction of Indenture*” in this offering memorandum.

### **Optional Purchase**

The issuer will notify the indenture trustee within 15 days after the first distribution date on which the then outstanding Pool Balance is 10% or less of the Initial Pool Balance. The issuer may purchase or arrange for the purchase of all remaining student loans held in the trust estate on the next distribution date following such notice. The exercise of this purchase option will result in the early retirement of the remaining notes. The purchase price will equal the greater of (i) the fair market value for the student loans and (ii) a prescribed minimum purchase amount, less any amounts on deposit in the accounts under the indenture.

This prescribed minimum purchase amount is the amount that would be sufficient to:

- reduce the outstanding principal amount of all of the notes on the related distribution date to zero;
- pay to holders of notes the interest payable on the related distribution date;
- pay to holders of Class B notes any Class B Noteholders’ Carry-Over Amount payable on the related distribution date; and
- pay any unpaid monthly issuer fees as described in this summary under “*—Administration of the Trust Estate—Distributions*” on the related distribution date.

### **Auction of the Student Loans**

The indenture trustee will offer for sale by auction all remaining student loans following the first distribution date when the Pool Balance is 10% or less of the Initial Pool Balance. The auction date will be the 3rd business day before the next distribution date. An auction will occur only if the issuer has first waived its optional purchase right. The issuer will be deemed to have waived its option to purchase the remaining student loans if it fails to notify the eligible lender trustee and the indenture trustee, in writing, that it intends to exercise its purchase option before the indenture trustee accepts a bid to purchase the student loans. The issuer, the master servicer, any entity managed by the master servicer, and unrelated third parties may offer bids to purchase the student loans.

If at least two bids are received, the indenture trustee will solicit and re-solicit new bids from all participating bidders until only one bid remains or the remaining bidders decline to resubmit bids. The indenture trustee will accept the highest of the remaining bids if it equals or exceeds (a) the minimum purchase amount described in this summary under “—*Optional Purchase*” or (b) the fair market value of the student loans as of the end of the related collection period, whichever is higher. If at least two bids are not received or the highest bid after the re-solicitation process does not equal or exceed that amount, the indenture trustee will not complete the sale. The indenture trustee may, and at the direction of the issuer will be required to, consult with a financial advisor, including a placement agent or the master servicer, to determine if the fair market value of the student loans has been offered.

The net proceeds of any auction sale will be used to retire any outstanding notes on the related distribution date.

If the sale is not completed, the indenture trustee will, to the extent practical based on market conditions, solicit bids for sale of the student loans after future collection periods upon terms similar to those described above, including the issuer’s waiver of its option to purchase remaining student loans. The indenture trustee may consult with and conclusively rely upon the advice of a financial advisor having recognized experience in the valuation and sale of student loans to determine whether it is practical, based on market conditions, to solicit bids for the sale of the student loans.

If the student loans are not sold as described above, on each subsequent distribution date, the indenture trustee will continue to apply amounts on deposit in the collection account as described in this summary above under “—*Administration of the Trust Estate—Distributions*.”

**Capitalization of Notes Under the Indenture**

The following table illustrates the capitalization of the trust estate created under the indenture as of the closing date, after giving effect to the issuance of the Class A notes and the subordinate Class B notes:

<u>Class</u>	<u>Capitalization</u>
Class A notes.....	\$112,200,000
Class B notes <sup>(1)</sup> .....	<u>3,000,000</u>
Total .....	<u>\$115,200,000</u>

(1) On the closing date, the subordinate Class B notes will also be issued pursuant to the indenture. The subordinate Class B notes are not being offered pursuant to this offering memorandum. See “*CREDIT ENHANCEMENT—The Subordinate Class B Notes*” in this offering memorandum for a description of the subordinate Class B notes.

**Registration, Clearing and Settlement**

You will hold your interest in the Class A notes through The Depository Trust Company in the United States. You will not receive a definitive certificate representing your interest in the Class A notes, except in limited circumstances.

**ERISA Considerations**

Subject to the considerations discussed in this offering memorandum under “*ERISA CONSIDERATIONS*,” the Class A notes are eligible for acquisition or purchase by or on behalf of, or with assets of, certain employee benefit plans and other retirement accounts.

**Federal Income Tax Consequences**

In the opinion of Mayer Brown LLP, the Class A notes will be characterized as debt obligations for federal income tax purposes. Interest paid or accrued on the Class A notes (as well as any original issue discount relating to such notes) will be taxable to you. For a more complete discussion of the tax aspects of the Class A notes, see “*FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE CLASS A NOTES*” in this offering memorandum.

**Ratings**

It is a condition to the sale of the Class A notes that they be rated “AAAsf” by Fitch Ratings and “AA+ (sf)” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. It is a condition to the issuance of the subordinate Class B notes that they be rated at least “Asf” by Fitch Ratings. The rating on subordinate Class B notes will not address the likelihood of the payment of any Class B Noteholders’ Carry-Over Amount that may accrue on the subordinate Class B notes.

**Risk Factors**

Some of the factors you should consider before making an investment in the Class A notes are described in this offering memorandum under “*RISK FACTORS*.”

**Identification Numbers**

The Class A notes will have the CUSIP Number and ISIN Number listed below.

<u>CUSIP Number</u> *	<u>ISIN Number</u>
10620WAA6	US10620WAA62

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\* Copyright 2007, American Bankers Association. CUSIP data herein is provided by Standard & Poor’s CUSIP Service Bureau, a Division of the McGraw-Hill Companies, Inc. The CUSIP number listed above are being provided solely for the convenience of noteholders only at the time of issuance of the Class A notes and the issuer does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future.

## RISK FACTORS

You should consider the following risk factors in deciding whether to purchase the Class A notes.

### *You may have difficulty selling your Class A notes*

The Class A notes will be a new issue without an established trading market. Upon issuance, the Class A notes will not be registered under the Securities Act of 1933, as amended, and will not be listed on any stock or other securities exchange in the United States or Europe. We cannot assure you that a secondary market for the Class A notes will develop. If a secondary market for the Class A notes does develop, the spread between the bid price and the asked price for your Class A notes may widen, thereby reducing the net proceeds to you from the sale of your Class A notes. If a secondary market for the Class A notes does develop, there can be no assurance that it will continue.

There is currently a very limited market for asset-backed securities. There may be a similar lack of liquidity at times in the future. Despite recent federal market interventions and programs, the current period of general market illiquidity may continue or even worsen and may adversely affect the secondary market for your Class A notes. Recent and continuing events in the global financial markets, including the weakened financial condition of several major financial institutions, problems related to subprime mortgages and other financial assets, the forced sale of asset-backed and other securities by certain investors, increased illiquidity, the reduction of value of various assets in secondary markets and the lowering of ratings on certain asset-backed securities, may adversely affect the liquidity and/or reduce the market value of your Class A notes.

Furthermore, the global financial markets have recently experienced increased volatility due to uncertainty surrounding the level and sustainability of the sovereign debt of various countries, including the United States. Standard & Poor's Ratings Services downgraded the United States to "AA+" on August 5, 2011. Moody's Investors Services and Fitch Ratings have confirmed their "Aaa/AAA" rating on the United States. However, 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, and Moody's Investors Service has announced that it has placed the ratings of certain financial institutions directly linked to the United States government on watch for possible downgrade. There can be no assurance that this uncertainty relating to the sovereign debt of various countries will not lead to further disruption of the credit markets in the United States. If the United States bond rating or government guaranteed debt instruments are further downgraded by Standard & Poor's Ratings Services or downgraded by Moody's Investors Service or Fitch Ratings, the market price or the marketability of the Class A notes could be adversely affected, as could the general economic conditions in the United States.

The enactment of the Health Care and Education Reconciliation Act of 2010 (HCERA), which terminated the authority to make new student loans under the Federal Family Education Loan Program, may also reduce the liquidity of your Class A notes, which could adversely affect the market value of your Class A notes. Further, we cannot predict the impact that HCERA will ultimately have on current participants in FFELP (including the issuer, the master servicer, the subservicers and the guarantee agencies) or on the Class A notes. HCERA could materially adversely impact the business models of current participants in FFELP. If HCERA were to have a material adverse effect on any of the issuer, the master servicer, the subservicers or the guarantee agencies, the market value of your Class A notes could be adversely affected.

If the Class A notes are held by a limited number of holders, the market for the Class A notes may be less liquid than would be the case if the Class A notes were more widely held, and the demand and market price for the Class A notes could be adversely affected.

As a result of the foregoing, you may not be able to sell your Class A notes when you want to do so, or you may not be able to sell your Class A notes at prices that will enable you to realize your desired yield. The market values of the Class A notes are likely to

fluctuate. Any of these fluctuations may be significant and could result in significant losses to you.

***The student loans have experienced delinquencies and losses***

As of the statistical cut-off date, certain of the student loans were delinquent. See “CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Number of Days of Delinquency (As of the Statistical Cut-Off Date)” in this offering memorandum. A portion of these delinquent student loans may not become current and may become defaulted student loans. As of June 30, 2012, the FFELP student loans that are expected to be pledged under the indenture have experienced cumulative claims paid and total claims rejected of approximately 11.29% and approximately 0.14%, respectively, of the aggregate initial principal balance of such FFELP student loans and the HEAL loans that are expected to be pledged under the indenture have experienced cumulative claims paid and total claims rejected of approximately 0.23% and approximately 0.00%, respectively, of the aggregate initial principal balance of such HEAL loans. No assurances can be made with respect to the performance of the pool of student loans that is expected to be pledged under the indenture. Such student loans may perform similarly to, or worse than other similar pools of student loans pledged under other indentures. The foregoing characteristics of the student loans may adversely affect the performance of the student loan pool and may adversely affect the value of the Class A notes as compared to securities secured by other pools of student loans. Potential purchasers of the Class A notes should consider the risk that they may not recover their initial investment due to losses on the student loans.

***You will bear prepayment and extension risk due to actions taken by individual borrowers and other variables beyond our control***

A borrower may prepay a student loan in whole or in part at any time. The rate of prepayments on the student loans may be influenced by a variety of economic, social, competitive and other factors, including changes in interest rates, the availability of alternative financings (including consolidations or reconsolidations of FFELP loans with Federal Direct Loan Program loans) and the general economy. In addition, the issuer may receive unscheduled payments on FFELP loans and HEAL loans due to defaults. It is impossible to predict the amount and timing of payments that will be received on the student loans and paid to holders of Class A notes in any period. Consequently, the length of time that the Class A notes are outstanding and accruing interest may be shorter than you expect.

On the other hand, the student loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods. In addition, scheduled payments with respect to the student loans may be reduced and the maturities of the student loans may be extended under certain repayment schedules available under the Higher Education Act, including income sensitive and income based repayment schedules. If a borrower uses any of these periods or schedules, it may lengthen the remaining term of the student loans and delay principal payments to you. In addition, the amount available for distribution to you will be reduced if borrowers fail to pay timely the principal and interest due on the student loans. Consequently, the length of time that the Class A notes are outstanding and accruing interest may be longer than you expect.

The optional purchase right and the provision for the auction of the student loans create additional uncertainty regarding the timing of payments to holders of Class A notes. See “RISK FACTORS—The Class A notes may be repaid early due to any auction sale or exercise of the purchase option, and if this happens, your yield may be affected and you will bear reinvestment risk.”

The effect of these factors is impossible to predict. To the extent they create reinvestment risk, you will bear that risk.

***Future increases in fees and expenses payable from the trust estate will reduce the amount of funds available to pay principal and interest on the Class A notes***

Certain fees and expenses are payable from the trust estate prior to the payment of principal and interest on the Class A notes. See “DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions.” Certain of those fees and expenses are not fixed and may reasonably be expected to increase over time, such as those payable to subservicers. Material increases in such fees and expenses will reduce the amount of funds available to pay principal and interest on the Class A notes and may result in

insufficient funds being available for such payment. See “DESCRIPTION OF THE CLASS A NOTES—Monthly Issuer Fees” in this offering memorandum.

***A termination of a subservicing agreement or a failure to renew a subservicing agreement could cause disruptions in servicing***

With respect to the student loans that will be held under the indenture, the master servicer will be responsible for the servicing, collecting, accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guarantee agency, the insurance of the Secretary of the Department of Education and the insurance provided by the Secretary of Health and Human Services. The master servicer will perform most of its servicing obligations through separate subservicing agreements with each of the subservicers. As a result, most servicing duties relating to student loans held under the indenture will actually be performed by the subservicers. See “REGARDING THE STUDENT LOANS—Description of Subservicers” in this offering memorandum. Although the specific terms of the subservicing agreements vary, each subservicing agreement may be terminated by the subservicer under certain conditions and certain subservicing agreements are subject to periodic renewals. A termination of a subservicing agreement or a failure to renew a subservicing agreement could cause disruptions in servicing and increased periods of delinquency. If a subservicing agreement were to be terminated or if a subservicing agreement could not be renewed, there is no assurance that a replacement subservicer could be found to service the student loans at the previous subservicer’s fee structure.

***Your Class A notes may have a degree of basis risk that could compromise our ability to pay principal and interest on your Class A notes***

There is a degree of basis risk associated with the Class A notes. Basis risk is the risk that shortfalls might occur because the interest rates of the student loans and those of the Class A notes may adjust on the basis of different indexes and at different times. If these indices diverge, our ability to pay principal and/or interest on the Class A notes could be compromised.

***Relief granted to certain persons on active duty in military service or serving in the National Guard could reduce the amount of funds available to pay principal and interest on the Class A notes***

On December 19, 2003, President Bush signed into law the Servicemembers Civil Relief Act. The Servicemembers Civil Relief Act was enacted in an effort to update and modernize the Soldiers’ and Sailors’ Civil Relief Act of 1940. The Servicemembers Civil Relief Act provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loans. The response of the United States to terrorist attacks and issues in the Middle East may increase the number of citizens who are in active military service, including persons in reserve status who have been called or will be called to active duty. The Servicemembers Civil Relief Act also limits the ability of a lender under 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. As a result, there may be delays in payment and increased losses on the student loans held in the trust estate. The issuer does not know how many students have been or may be affected by the application of the Servicemembers Civil Relief Act and the United States Department of Education’s recent guidelines. If a substantial number of borrowers become eligible for the relief provided under the Servicemembers Civil Relief Act, there could be an adverse effect on the total collections on the student loans and the ability of the issuer to pay interest on the Class A notes.

The Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act of 2003) was signed into law on August 18, 2003, and was set to expire on September 30, 2007. However, on September 30, 2007 President Bush signed into law H.R. 3625 to permanently extend provisions of the HEROES Act of 2003. The HEROES Act of 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 to ensure that student loan borrowers who: (i) are serving on active military duty during a war or other military operation or national emergency; (ii) are serving on National Guard duty during a war or other military operation or national emergency; (iii) reside or are employed in an area that is declared by any federal, state or local official to be a disaster area in connection with a national emergency; or (iv) suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, to ensure that such recipients of student financial assistance are not placed in a worse financial position



in relation to that assistance, to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable. The number and aggregate principal balance of student loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, payments received by the issuer on student 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 HEROES Act of 2003, there could be an adverse effect on the total collections on the student loans and the ability of the issuer to pay interest on the Class A notes.

The Higher Education Reconciliation Act of 2005 and the College Cost Reduction and Access Act authorizes deferment for student loans for periods during which the borrower is serving on active duty or is performing qualifying National Guard duty during a war or other military operation or national emergency (including in response to terrorist attacks). The College Cost Reduction and Access Act further authorizes an additional 13 months of deferment following the conclusion of service for a borrower who is a member of the National Guard or other reserve component of the Armed Forces, or a member of the Armed Forces in a retired status, called or ordered to active duty, and is enrolled or was enrolled within six months prior to activation in a program of instruction at an eligible institution, except that this deferment will end upon a student's return to school. The issuer does not know how many students may qualify for these deferments. If a substantial number of borrowers become eligible for these deferments, there could be an adverse effect on the total collections on the student loans and the ability of the issuer to pay interest on the Class A notes.

***The Class A notes issued will be payable solely from the trust estate created under the indenture and you will have no other recourse against us or against our other assets***

The Class A notes are payable solely from the funds and assets held in the trust estate created under the indenture. Except for any substitutions or acquisitions of student loans as described under “DESCRIPTION OF THE INDENTURE—Pledge of Certain Rights” and “—Sale of Student Loans Held in the Trust Estate,” the only student loans to be pledged to the indenture trustee under the indenture are those to be pledged on the closing date, and there will be no subsequent acquisitions of or recycling of student loans into the trust estate under the indenture. No insurance or guarantee of those Class A notes will be provided by any government agency or instrumentality, by any insurance company, by Brazos Education Loan Authority, Inc. or by any other person or entity. Therefore, your receipt of payments on your Class A notes will depend solely on:

- the amount and timing of payments and collections on the student loans held in the trust estate (including payments by the guarantee agencies, if any) and interest paid or earnings on the funds held in the accounts established pursuant to the indenture;
- the amounts on deposit in the reserve account; and
- the amounts on deposit in the other accounts held in the trust estate.

If those sources of funds are insufficient to repay your Class A notes, you will have no additional recourse against Brazos Education Loan Authority, Inc. or any other entity.

***The assets held in the trust estates may not be sufficient to pay the Class A notes***

If an event of default were to occur under the indenture and the issuer were required to pay unpaid interest and principal on all of the Class A notes as a result of an acceleration of the maturity of the notes at a time when the Class A parity percentage is less than 100%, the amounts due on the Class A notes would exceed the amount held in the trust estate. In addition, if the indenture trustee had to liquidate all or a portion of the student loans upon the occurrence of an event of default, the indenture trustee might not be able to sell the student loans for their full par value. Therefore, even if the Class A parity percentage is

100% or greater, the possibility exists that the indenture trustee, in the event of acceleration of the outstanding notes, may not be able to sell the student loans and other assets in the trust estate for a sufficient amount to pay the principal of and accrued interest on all outstanding Class A notes. If this were to occur, we would be unable to repay in full all of the holders of notes which would affect the holders of subordinate Class B notes before affecting the holders of Class A notes because of the order of payment priority set forth in the indenture. See “DESCRIPTION OF THE INDENTURE—Events of Default” and “—Remedies on Default” in this offering memorandum for a description of the cash flows following the occurrence of an event of default that has resulted in an acceleration of the maturity of the notes.

***The student loans pledged under the indenture will be unsecured and the ability of any guarantee agency to honor its guarantee may become impaired***

All of the student loans held in the trust estate under the indenture will be unsecured. As a result, the only security for payment of a FFELP loan will be the guarantee, if any, provided by a guarantee agency and the only security for the payment of a HEAL loan will be the insurance, if any, provided by the Secretary of Health and Human Services.

A deterioration in the financial status of a guarantee agency and its ability to honor guarantee claims on defaulted FFELP loans could result in a failure of that guarantee agency to make its guarantee payments in a timely manner. The financial status of a guarantee agency could be adversely affected by a number of factors including, but not limited to, the amount of claims made against it as a result of borrower defaults, the amount of claims reimbursed to that guarantor from the Department of Education, which range from 75% to 100% of the guaranteed portion of the loan depending on the date the loan was made, the performance of the guarantee agency and changes in legislation that may reduce expenditures from the Department of Education that support federal guarantee agencies or that may require guarantee agencies to pay more of their reserves to the Department of Education. In general, under current law a guarantee agency reinsured by the Department of Education will guarantee 100% of each FFELP loan disbursed before October 1, 1993, 98% of each FFELP loan first disbursed on or after October 1, 1993 and on or before June 30, 2006 and 97% of each FFELP loan first disbursed on or after July 1, 2006. If the financial condition of a guarantee agency deteriorates, it may fail to make guarantee payments in a timely manner, or at all. In that event, holders may suffer delays in payment or losses on the Class A notes.

On March 30, 2010, the Health Care and Education Reconciliation Act of 2010 (HCERA) was enacted in law. HCERA provides that after June 30, 2010, no new student loans will be made under the Federal Family Education Loan Program. It is not possible to predict the effects of HCERA on the guarantee agencies, but HCERA could have a material adverse effect on the guarantee agencies.

***The composition and characteristics of the student loans held in the trust estate may change***

The statistical information in this offering memorandum reflects the characteristics of all of the student loans that will be pledged under the indenture on the closing date. Information relating to this portfolio of student loans is as of the statistical cut-off date. See “CHARACTERISTICS OF THE STUDENT LOANS” in this offering memorandum. The student loans as they exist on or about the closing date will have characteristics that differ somewhat from the characteristics of the student loans as of the statistical cut-off date described in this offering memorandum due to payments received on and other changes in these loans that occur during the period from the statistical cut-off date to the closing date. We do not expect the characteristics of the student loans actually pledged under the indenture on the closing date to differ materially from the characteristics of the student loans described in this offering memorandum as of the statistical cut-off date. However, in making your investment decision, you should assume that the actual characteristics of the student loans pledged under the indenture will vary somewhat from the characteristics of the student loans presented in this offering memorandum as of the statistical cut-off date.

***Risk of geographic concentration of student loans***

The concentration of the student loans in specific geographic areas may increase the risk of losses on the student loans. Economic conditions in the states where borrowers reside may affect the delinquency, loan loss and recovery experience with respect to the student loans. As of the statistical cut-off date, approximately 16.35%, 8.69% and 8.53% of the

student loans by outstanding principal balance were to borrowers with current billing addresses in California, Texas and New York, respectively. See “*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Geographic Location (As of the Statistical Cut-Off Date)*” in this offering memorandum. Economic conditions in any state or region may decline over time and from time to time. Because of the concentrations of the borrowers in California, Texas and New York, any adverse economic conditions adversely and disproportionately affecting those states may have a greater effect on the performance of the Class A notes than if these concentrations did not exist. The risk of geographic concentration may change over time as borrowers graduate from school and/or move to other states.

***A failure of the Department of Education to make reinsurance payments may adversely affect timely repayment on the Class A notes***

The financial condition of a guarantee agency may be adversely affected if it submits a large number of reimbursement claims relating to FFELP loans to the Department of Education, which results in a reduction of the amount of reimbursement that the Department of Education is obligated to pay to the guarantee agency. The Department of Education may also require a guarantee agency to return its reserve funds to the Department of Education upon a finding that the reserves are unnecessary for the guarantee agency to pay its program expenses or to serve the best interests of the Federal Family Education Loan Program. The inability of any guarantee agency to meet its guarantee obligations could reduce the amount of principal and interest paid to the holders of Class A notes or delay those payments past their due date. If the Department of Education has determined that a guarantee agency is unable to meet its guarantee obligations relating to FFELP loans, the 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 thereto. See “*DESCRIPTION OF THE GUARANTEE AGENCIES*” in this offering memorandum. 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 guarantee agency is unable to meet its guarantee obligations. The Department of Education may not ever make this determination with respect to a guarantee 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 guarantee agencies or the Department of Education could prevent us from paying you the full amount of the principal and interest due on the Class A notes***

Due to the Department of Education’s policy with respect to the granting of new lender identification numbers, the availability of such numbers has become restricted. As a result, it may be necessary for the eligible lender trustee to permit the issuer, or other issuers of obligations securitized by FFELP loans to use the Department of Education lender identification number applicable to the FFELP loans in the trust estate. In that event, the billings submitted to the Department of Education for interest subsidy and special allowance payments on the student loans held in the trust estate would be consolidated with the billings for such payments for FFELP loans in other trust estates using the same lender identification number, and payments on such billings would be made by the Department in lump sum form. Such lump sum payments would then be allocated among the various trust estates in which the eligible lender trustee serves as the eligible lender trustee thereof using the same lender identification number.

In addition, the sharing of the lender identification number among FFELP loans in different trust estates may result in the receipt of claim payments by guarantors in lump sum form. In that event, such payments would be allocated among the trust estates in a manner similar to the allocation process for interest subsidy payments and special allowance payments.

The Department of Education regards the eligible lender trustee as the party primarily responsible to the Department of Education for any liabilities owed to the Department of Education or guarantors resulting from the eligible lender trustee’s activities in the Federal Family Education Loan Program. As a result, if the Department of Education or a guarantor were to determine that the eligible lender trustee owes a liability to the Department of Education or a guarantor on any FFELP loan for which the eligible lender trustee is or was legal titleholder, including FFELP loans held in the trust estate or other trust estates, the Department of Education or guarantor may seek to collect that liability by

offset against payments due the eligible lender trustee under the trust estate. In the event that the Department of Education or a guarantor determines such a liability exists in connection with a trust estate using the shared lender identification number, the Department of Education or guarantor would be likely to collect that liability by offset against amounts due the eligible lender trustee under the shared lender identification number, including amounts owed in connection with the trust estate created under the indenture.

In addition, other trust estates using the shared lender identification number may in a given calendar quarter incur consolidation origination fees that exceed the interest subsidy and special allowance payments payable by the Department of Education on the FFELP loans in such other trust estates, resulting in the consolidated payment from the Department of Education received by the eligible lender trustee under such lender identification number for that quarter equaling an amount that is less than the amount owed by the Department of Education on the loans in that trust estate for that quarter.

***You may incur losses or delays in payment on the Class A notes if borrowers default on their student loans***

The trust estate securing the Class A notes will contain student loans made under the Federal Family Education Loan Program and student loans made under the Health Education Assistance Loan Program. In general, under current law a guarantee agency reinsured by the Department of Education will guarantee 100% of each FFELP loan disbursed before October 1, 1993, 98% of each FFELP loan first disbursed on or after October 1, 1993 and on or before June 30, 2006 and 97% of each FFELP loan first disbursed on or after July 1, 2006. As a result, if the borrower under one of those FFELP loans defaults, the trust estate will experience a loss of approximately 2% or 3%, as the case may be, of the outstanding principal and accrued interest on the defaulted loan. We will have no right to pursue the borrower for the remaining 2% or 3% unguaranteed portion. See “*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Date of Disbursement (As of the Statistical Cut-Off Date)*” in this offering memorandum.

Under the Health Education Assistance Loan Program, insurance provided by the Secretary of Health and Human Services generally covers 98% of the lender’s losses on both unpaid principal and interest except to the extent a borrower may have a defense on the loans. See “*DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM.*” As a result, if the borrower under one of those HEAL loans defaults, the trust estate will experience a loss of approximately 2% of the outstanding principal and accrued interest on the defaulted loan.

If the trust estate suffers a loss as a result of a borrower default and any credit enhancement available for the Class A notes (including amounts in the reserve account) is not sufficient to cover that loss, you may suffer a delay in payment or a loss on your investment.

***Borrowers under student loans are subject to a variety of factors that may adversely affect their repayment ability and our ability to pay the holders of Class A notes***

For a variety of economic, social and other reasons, we may not receive all the payments that are actually due on the student loans held in the trust estate. A deterioration in economic conditions could be expected to adversely affect the ability or willingness of borrowers to repay student loans. Many economists have indicated that the United States and several other economies around the world are suffering from a general economic slowdown. Additionally, the global financial markets have recently experienced increased volatility due to uncertainty surrounding the level and sustainability of the sovereign debt of various countries, including the United States. See “*RISK FACTORS—You may have difficulty selling your Class A notes.*” These factors have been associated with reduced employment, which may have significant adverse effect on borrowers’ ability and willingness to repay student loans. Furthermore, student loans are not secured by any assets of the borrowers. Failures by borrowers to make timely payments of the principal and interest due on the student loans held in the trust estate will affect the revenues of the trust estate, which may reduce the amounts available to pay principal and interest due on the Class A notes.

***Failure to comply with loan origination and servicing procedures for FFELP loans may result in loss of guarantee and other benefits***

The Higher Education Act and its implementing regulations require holders of FFELP loans and guarantee agencies guaranteeing FFELP loans to follow specified procedures in making and collecting on those FFELP loans.

If we fail to follow those procedures, or if any guarantee agency, originator, the master servicer or any subservicer of FFELP loans fails to follow those procedures, the Department of Education and the guarantee agencies may refuse to pay claims on defaulted loans submitted by the master servicer on behalf of the trust estate. If the Department of Education or a guarantee agency refused to pay a claim, it would reduce the revenues of the trust estate and impair our ability to pay principal and interest on the Class A notes. See “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” in this offering memorandum.

***Failure to comply with loan origination and servicing procedures for HEAL loans may adversely affect the insurance provided by the Secretary of Health and Human Services under the Health Education Assistance Loan Program***

A lender and servicer must follow certain procedures in making HEAL loans, and must exercise due diligence in the collection of a HEAL loan with respect to both a borrower and any endorser, in accordance with regulations of the Secretary of Health and Human Services. In addition, upon the occurrence of a default of a HEAL loan, the Secretary of Health and Human Services requires the eligible lender or holder to commence and successfully prosecute an action for default against the borrower prior to realizing the benefit of the insurance provided by the Secretary of Health and Human Services. If these procedures are not followed, such due diligence is not exercised, or a successful action for default against the borrower cannot be obtained, the lender’s ability to realize the benefits of the insurance provided by the Secretary of Health and Human Services may be adversely affected. If the Secretary of Health and Human Services refused to pay a claim, that refusal would reduce the revenues payable to the trust estate and impair the issuer’s ability to pay principal and interest on the notes. See “DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM” in this offering memorandum.

***If the master servicer or any subservicer fails to comply with the Department of Education’s third-party servicer regulations regarding FFELP loans, payments on the Class A notes could be adversely affected***

The Department of Education regulates each servicer of FFELP loans. Under these regulations, a third-party servicer, including the master servicer or any subservicer, is jointly and severally liable with its client lenders for liabilities to the Department of Education arising from its violation of applicable requirements. In addition, if the master servicer or any subservicer fails to meet standards of financial responsibility or administrative capability included in the regulations, or violates other requirements, the Department of Education may fine the master servicer or any subservicer and/or limit, suspend, or terminate the master servicer’s or subservicer’s eligibility to contract to service FFELP loans. If the master servicer or any subservicer were so fined or held liable, or its eligibility were limited, suspended, or terminated, its ability to properly service the FFELP loans held in the trust estate and to satisfy its obligation to purchase any FFELP loans with respect to which it has breached its representations, warranties or covenants could be adversely affected. In addition, if the Department of Education terminates the master servicer’s or any subservicer’s eligibility to service FFELP loans, a servicing transfer will take place and there may be costs of the transfer and delays in collections and temporary disruptions in servicing on those FFELP loans. Any servicing transfer may adversely affect payments to you.

***Our ability to make timely payments on the Class A notes may change***

The cash flow attributable to the trust estate, and our ability to make payments due on the Class A notes, will be reduced to the extent interest is not currently payable on the student loans held in the trust estate. The borrowers under most FFELP loans are not required to make payments during the period in which they are in school and for certain authorized periods thereafter. The Department of Education will make all interest payments while payments are deferred under the Higher Education Act on certain of the FFELP loans. For most other FFELP loans during periods that the borrowers are not required to make payments, interest generally will be capitalized and added to the principal balance of the loans. The trust estate may include FFELP loans for which payments are deferred as well as student loans for which the borrower is currently required to make payments of principal and interest. The proportions of the student loans held in the trust estate for which payments are deferred and currently in repayment will vary during the period that the Class A notes are outstanding. In addition, to the extent we rely on the receipt of special allowance payments from the Department of Education for FFELP loans held in

the trust estate to make payments on the Class A notes, the receipt of such special allowance payments, which are made quarterly, may reduce our ability to make timely payments of interest on the Class A notes.

***The use of master promissory notes may compromise the indenture trustee's security interest in Federal Stafford Loans and Federal PLUS Loans held in the trust estate***

On July 1, 1999, the master promissory note began to be used as evidence of Federal Stafford Loans (subsidized and unsubsidized) made to borrowers under the Federal Family Education Loan Program. The master promissory note may be used for Federal PLUS Loans for loan periods beginning on or after July 1, 2003, and must be used for all Federal PLUS Loans for loan periods beginning on or after July 1, 2004, or for any Federal PLUS Loan certified on or after July 1, 2004, regardless of the loan period. If a master promissory note is used, a borrower executes only one promissory note with each lender. Subsequent loans from that lender are evidenced by a confirmation sent to the student. Therefore, if a lender originates multiple loans to the same student, all the loans are evidenced by a single promissory note.

Under the Higher Education Act, each loan made under a master promissory note may be sold independently of any other loan made under that same master promissory note. Each loan is separately enforceable on the basis of an original or copy of the master promissory note. Also, a security interest in those loans may be perfected either through the secured party taking possession of the original or a copy of the master promissory note, or the filing of a financing statement. Prior to the use of master promissory notes, each loan was evidenced by a separate note. Assignment of the original note was required to affect a transfer of the loan and possession of a copy of the original note did not perfect a security interest in the loan.

Federal Consolidation Loans are not originated with master promissory notes. Each of those loans are made under standard loan applications and promissory notes required by the Department of Education.

The trust estate securing the Class A notes may include Federal Stafford Loans and Federal PLUS Loans originated under a master promissory note. If the originator of those loans were to deliver a copy of the master promissory note, in exchange for value, to a third party that did not have knowledge of the indenture trustee's lien on those loans, that third party may also claim an interest in those loans. It is possible that the third party's interest could be prior to or on a parity with the interest of the indenture trustee.

***The Class A notes may be repaid early due to any auction sale or exercise of the purchase option, and if this happens, your yield may be affected and you will bear reinvestment risk***

The Class A notes may be repaid before you expect them to be if:

- the indenture trustee successfully conducts an auction sale of the student loans remaining in the trust estate or
- the issuer exercises its option to purchase all of the student loans remaining in the trust estate.

Either event would result in the early retirement of the outstanding Class A notes. If this happens, the yield on the Class A notes may be affected. You will bear the risk that you cannot reinvest the money you receive in comparable securities at as high a yield. The issuer's option to purchase the student loans and the auction for the sale of student loans will occur only when the Pool Balance is 10% or less of the Initial Pool Balance and as described in this offering memorandum under "*DESCRIPTION OF THE CLASS A NOTES—Optional Purchase*" and "*—Auction of the Student Loans.*"

***Borrower incentive programs and changes in repayment terms may result in yield uncertainties for you***

The originators of the student loans to be held in the trust estate under the indenture implemented certain incentive programs pursuant to which the originator offered incentives or changes to the repayment terms with respect to any or all of a borrower's student loans. We cannot predict which borrowers will qualify or decide to participate in such programs. The effect of such incentive programs might be to reduce the yield on the student loans held in the trust estate securing the Class A notes. See "*REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans.*"

***Changes in law may adversely affect participants in the Federal Family Education Loan Program***

The Higher Education Act or other relevant federal or state laws, rules and regulations may be amended or modified in the future in a manner that could adversely affect the federal student loan programs as well as the student loans made under these programs and the financial condition of the guarantors.

There can be no assurances that the Higher Education Act, or other relevant law, will not be changed in a manner that could adversely affect the issuer and its student loan program. See “*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*” and “*DESCRIPTION OF THE GUARANTEE AGENCIES*” in this offering memorandum. We cannot predict whether any changes will be adopted or, if so, what impact such changes may have on the student loans held in the trust estate or the Class A notes.

On March 30, 2010, President Obama signed into law H.R. 4872 – the Health Care and Education Reconciliation Act of 2010 (HCERA). HCERA provides that after June 30, 2010, no new student loans will be made under the Federal Family Education Loan Program. Beginning July 1, 2010, all subsidized and unsubsidized Stafford loans, PLUS loans, and Consolidation loans can only be made under the government’s Federal Direct Loan Program (FDLP).

The elimination of the FFELP could have a material adverse impact on the master servicer, the issuer, the subservicers and the guarantee agencies. For example, the master servicer and any subservicer may experience increased costs due to reduced economies of scale to the extent the volume of loans serviced by the master servicer or any subservicer is reduced. Those cost increases could affect the ability of the master servicer and any subservicer to satisfy its obligations to service the student loans held in the trust estate securing the Class A notes. Student loan volume reductions could further reduce revenues received by the guarantee agencies available to pay claims on defaulted FFELP loans. In addition, the level of competition currently in existence in the secondary market for FFELP loans could be reduced, resulting in fewer potential buyers of FFELP loans and lower prices available in the secondary market for those loans.

We cannot predict the impact that HCERA will ultimately have on current participants in FFELP and on the Class A notes.

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. Eligible borrowers with both FFELP loans and eligible FDLP loans are permitted under this program to have their existing FFELP loans reissued under the FDLP during the period from January 1, 2012 through June 30, 2012, and such borrowers will receive up to a 0.5% interest rate reduction on the reissued FFELP loan. The terms and conditions of borrowers’ existing student loan would continue. Holders of such FFELP loans, such as the issuer, would be paid 100% of the outstanding principal and interest balance on any FFELP loans so reissued. The Special Direct Consolidation Loan opportunity would result in prepayments of FFELP loans pledged under the indenture if such loans are reissued as a result of this program. Applications for this program may be processed after the June 30, 2012 deadline. The issuer cannot predict which borrowers may qualify for this program or which borrowers will decide to have their FFELP loans reissued pursuant to this program. See “*RISK FACTORS—You will bear prepayment and extension risk due to actions taken by individual borrowers and other variables beyond our control.*”

In addition, President Obama recently proposed a number of reforms to the federal student loan programs to be effected by executive order. Included in the proposal is a provision that would incent borrowers to move certain existing FFELP loans from lenders to the Department of Education. Once an executive order has been issued, the proposal may increase the rate at which borrowers might otherwise have moved certain FFELP loans to the Department of Education. We cannot predict whether these proposals, or similar proposals, will become effective or, if so, what impact such changes may have on the student loans held in the trust estate or the Class A notes. See “*RISK FACTORS—You will bear prepayment and extension risk due to actions taken by individual borrowers and other variables beyond our control.*”

***Changes to the Public Health Service Act or other relevant law may affect the HEAL loans held in the trust estate securing the Class A notes***

The Public Health Service Act and other relevant federal or state laws may be amended or modified in the future. In particular, the level of insurance coverage may be adjusted from time to time. The issuer cannot predict whether any changes will be adopted or, if so, what impact such changes may have on the HEAL loans securing the Class A notes.

***Different rates of change in interest rate indexes may affect the cash flow***

The interest rates on your Class A notes may fluctuate from one interest period to another as described in this offering memorandum. The FFELP loans bear interest, taking into account special allowance payments, if any, at the rates described in this offering memorandum under “*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments.*” The HEAL loans bear interest at a fixed rate or on a variable basis. See “*DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM*” in this offering memorandum.

If there is a decline in the rates payable on the student loans held in the trust estate securing the Class A notes, the amount of interest received may be reduced. If the interest rates payable on the Class A notes do not decline in a similar manner and time, there may be insufficient funds to pay interest on the Class A notes when it becomes due. Even if there is a similar reduction in the interest rates applicable to the Class A notes, there may not necessarily be a reduction in the other amounts required to be paid out of the trust estate, such as administrative expenses, causing interest payments on the Class A notes 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 Class A notes or expenses of the trust estate.

***If the indenture trustee has difficulty liquidating the student loans held in the trust estate securing the Class A notes, you may suffer a loss***

Generally, during an event of default, the indenture trustee will be authorized to sell the student loans held in the trust estate. However, the indenture trustee may not find a purchaser for the student loans. Also, the market value of the student loans might not equal the principal amount of the Class A notes plus accrued interest. In either event, you may suffer a loss on the Class A notes.

***Bankruptcy of the issuer could result in accelerated prepayment on the Class A notes, reductions in payment or delays in payment***

If the issuer becomes bankrupt, and the assets and liabilities of the trust estate are included in the issuer’s bankruptcy estate, the United States Bankruptcy Code could materially limit or prevent the enforcement of the issuer’s obligations, including, without limitation, its obligations under the Class A notes. The issuer’s trustee in bankruptcy (or the issuer itself as debtor-in-possession) may seek to accelerate payment on the Class A notes and liquidate the assets in the trust estate. If principal of the Class A notes is declared due and payable, you may lose the right to future payments and face the reinvestment risks mentioned above.

***Application of consumer protection laws to student loans may increase costs and uncertainties***

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 liabilities upon creditors who fail to comply with their provisions and may affect the enforceability of their loans. In addition, the remedies available to the indenture trustee or the holders of Class A notes upon an event of default under the indenture may not be readily available or may be limited by applicable state and federal laws.

***The security of confidential information received by the issuer and the master servicer relating to borrowers could be jeopardized***

The issuer and master servicer receive confidential information relating to borrowers. There can be no assurance that this information will not be subject to breaches of security, computer theft and other improper activity that could jeopardize the security of this information. Any such breach in security could expose the issuer or the master servicer to litigation, loss of business, regulatory enforcement action or additional expense.



***Less than all of the holders of notes can approve amendments to the indenture or waive defaults under the indenture***

Under the indenture, holders of specified percentages of the aggregate principal amount of the notes issued thereunder may amend or supplement provisions of the indenture and the notes and waive events of default and compliance provisions without the consent of the other holders. You will have no recourse if the holders vote and you disagree with the vote on those matters. The holders may vote in a manner that impairs our ability to pay principal and interest on your Class A notes.

***Book-entry registration may limit your ability to participate directly as a holder of Class A notes***

The Class A notes will be represented by one or more certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in the names of the holders. As a holder, you will be able to exercise your rights only indirectly through The Depository Trust Company and its participating organizations.

***The Class A notes are not suitable investments for all potential purchasers***

The Class A notes are not a suitable investment if you require a regular or predictable schedule of payments or payment on any specific date. The Class A notes are complex investments that should be considered only by potential purchasers 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 those factors.

***Withdrawal or downgrading of the initial ratings will adversely affect the prices for the Class A notes***

A security rating is not a recommendation to buy, sell or hold securities. Similar ratings on different types of securities do not necessarily mean the same thing. We recommend that you analyze the significance of each rating independently from any other rating. Any rating agency may change its rating of the Class A notes after those notes are issued if that rating agency believes that circumstances have changed. Any subsequent withdrawal or downgrading of a rating on the Class A notes will likely reduce the price that a subsequent purchaser will be willing to pay for the Class A notes. Disruptions in the credit markets, along with concerns over the financial strength 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 asset-backed securities. These events have led to a number of ratings actions on student loan asset-backed securities. Furthermore, the global financial markets have recently experienced increased volatility due to uncertainty surrounding the level and sustainability of the sovereign debt of various countries, including the United States. See also “*RISK FACTORS—You may have difficulty selling your Class A notes*” and “*THE MASTER SERVICER—Recent Developments*” for additional information regarding recent rating actions relating to the sovereign debt of the United States and securities backed by collateral directly linked to the United States government. Ratings actions may take place at any time. The issuer cannot predict the timing of any ratings actions, nor can the issuer predict whether the ratings assigned to the issuer’s Class A notes will be downgraded.

***There is a potential conflict of interest between the rating agencies and the issuer***

There is a potential conflict of interest between the issuer and the Rating Agencies. Fees charged by the rating agencies for the ratings initially assigned to the Class A notes, as well as ongoing fees to maintain the ratings, will be paid by the issuer from amounts held in the trust estate. The Securities and Exchange Commission has said that fees being paid by the sponsor, the issuing entity or a placement agent to issue or maintain a credit rating on asset-backed securities creates a conflict of interest for rating agencies, and that this conflict is particularly acute because arrangers and issuers of asset-backed securities transactions provide repeat business to the rating agencies.

***Federal financial regulatory reform could have a significant impact on the issuer and the master servicer***

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which generally took effect on July 22, 2010, except that many provisions will not take effect for a year or more and many will require implementing regulations to be issued. The Dodd-Frank Act is extensive and significant legislation that, amongst other things:

- created a liquidation framework for the resolution of large bank holding companies and systematically significant nonbank financial companies;

- created a new framework for the regulation of over-the-counter derivatives activities;
- strengthened the regulatory oversight of securities and capital markets activities by the Securities and Exchange Commission; and
- created the Consumer Financial Protection Bureau (“CFPB”), a new agency responsible for administering and enforcing the laws and regulations for consumer financial products and services.

The Dodd-Frank Act affects the offering, marketing and regulation of consumer financial products and services offered by financial institutions. The CFPB has supervision, examination and enforcement authority over the consumer financial products and services of certain non-depository institutions and large insured depository institutions.

The Dodd-Frank Act increases the regulation of the securitization markets. For example, it will require securitizers or originators to retain an economic interest in a portion of the credit risk for any asset that they securitize or originate. It will also give broader powers to the Securities and Exchange Commission to regulate credit rating agencies and adopt regulations governing these organizations and their activities.

Compliance with the implementing regulations under the Dodd-Frank Act or the oversight of the Securities and Exchange Commission or CFPB may impose costs on, create operational constraints for, or place limits on pricing with respect to the issuer or the master servicer. No assurance can be given that these new requirements imposed by the Dodd-Frank Act will not have a significant impact on the servicing of the student loans, and on the regulation and supervision of the master servicer and the issuer. Additionally, no assurances can be given that the liquidation framework for the resolution of large bank holding companies and systemically significant nonbank financial companies would not apply to the issuer or, if it were to apply, would not adversely affect the timing or amount of payments of principal and interest on the Class A notes.

Additionally, no assurances can be given that the liquidation framework for the resolution of “covered financial companies” would not apply to the master servicer, any subservicer, the seller of the student loans or the issuer. If the Federal Deposit Insurance Corporation (the “FDIC”) were appointed receiver of the issuer or any non-bank seller of the student loans under the Orderly Liquidation Authority provisions (“OLA”) of the Dodd-Frank Act, the FDIC could repudiate contracts deemed burdensome to the estate, including secured debt. We have structured the transfers of the student loans to the issuer as a valid and perfected true sale under applicable state law and under the United States Bankruptcy Code to mitigate the risk of the recharacterization of the sale as a security interest to secure debt of the seller of the student loans. Any attempt by the FDIC to recharacterize the transfer of the student loans as a security interest to secure debt that the FDIC then repudiates would cause delays in payments or losses on the Class A notes. In addition, if the issuer were to become subject to the OLA, the FDIC may repudiate the debt of the issuer and the holders of the Class A notes would have a secured claim in the receivership of the issuer. Also, if the issuer were subject to OLA, the holders of the Class A notes would not be permitted to accelerate the debt, exercise remedies against the collateral or replace the master servicer or any subservicer without the FDIC’s consent for 90 days after the receiver is appointed. As a result of any of these events, delays in payments on the Class A notes would occur and possible reductions in the amount of those payments could occur.

In addition, and also assuming that the FDIC were appointed receiver of the issuer or any seller of the student loans under the OLA, the FDIC could avoid transfers of student loans that are deemed “preferential.” Under one potential interpretation of the OLA, the FDIC could avoid a seller of the student loans’ transfer of such student loans to the issuer perfected merely by the filing of a UCC financing statement. If the transfer were voided as a preference under the OLA, the holders of the Class A notes would have only an unsecured claim in the receivership for the purchase price of the student loans. On July 15, 2011, the FDIC issued a final rule which, among other things, clarified that the

treatment of preferential transfers under OLA was intended to be consistent with, and should be interpreted in a manner consistent with, the related provisions under the Bankruptcy Code. This final rule became effective on August 15, 2011. To the extent subsequent FDIC actions in an OLA proceeding are contrary to the final rule, payment or distributions of principal and interest on the Class A notes could be reduced or delayed. Furthermore, if a court were to conclude that the final rule is inconsistent with the statute, then if a transfer were avoided as a preference under OLA, noteholders would have only an unsecured claim in the receivership for the purchase price of the student loans.

***If the Class A notes are issued with original issue discount, then a holder generally will be required to accrue income before it receives cash attributable to original issue discount on such Class A notes***

The Class A notes may be issued with original issue discount for U.S. federal income tax purposes. If the Class A notes are issued with original issue discount, a holder generally will be required to accrue such original issue discount on a current basis before it receives cash attributable to that income and regardless of its method of tax accounting. For further discussion of the computation and reporting of original issue discount, see “*FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE CLASS A NOTES*” in this offering memorandum.

***LIBOR manipulation claims***

The interest rates to be borne by most of the student loans and the Class A notes are based on a spread over one-month LIBOR, as set forth on the cover of this offering memorandum. The London Interbank Offered Rate, or LIBOR, serves as a global benchmark for home mortgages, student loans and what various issuers pay to borrow money. Certain financial institutions have been accused by various regulators of manipulating LIBOR, and have been alleged to have altered costs when reporting them to regulators. In addition to such regulatory investigations, lawsuits have been filed in the United States District Court for the Southern District of New York seeking damages for losses arising from LIBOR manipulation. Decisions are currently pending as to whether such lawsuits can proceed.

It is unknown at this time what effect, if any, these investigations or any related litigation will have on the use of LIBOR as a global benchmark going forward. We cannot provide any assurances that the rate-setting process for LIBOR will not be affected by similar conduct in the future, or that the investigations into the rate-setting process will not result in changes in the process used to determine LIBOR that could adversely affect the interest rate on your notes or that could result in a disruption in the rate-setting process. Therefore, the rate at which the student loans and the Class A notes bear interest could be adversely affected by misconduct in the rate-setting process for LIBOR or as a result of future changes to such process. It is also unknown whether there will be a negative effect to you if the LIBOR global benchmark is no longer available.

## **FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this offering memorandum constitute projections or estimates of future events, generally known as forward looking statements. These statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “budget” or other similar words. The achievement of certain results or other expectations contained in these forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements described to be materially different from any future results, performances or achievements described to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. The issuer does not plan to issue any updates or revisions to those forward-looking statements if or when changes in its expectations, or events, conditions or circumstances on which these statements are based occur. Some of the factors which could cause actual results to differ from expectations are described in this offering memorandum under “*RISK FACTORS*.”

## DESCRIPTION OF THE CLASS A NOTES

### General

The Class A notes will be issued under the terms of the indenture. The following summary describes the material terms of the Class A notes as described in the indenture. This summary does not restate the entire indenture.

We will issue the Class A notes in minimum denominations of \$100,000 and in integral multiples of \$1,000 in excess thereof. The Class A notes will be represented by one or more certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in the names of the holders. Unless definitive Class A notes are issued under the limited circumstances described herein under “—*Book-Entry Registration*,” no holder will be entitled to receive a physical certificate representing a Class A note. All references to actions by holders of Class A notes refer to actions taken by The Depository Trust Company on instructions from its participating organizations and all references to distributions, notices, reports and statements to holders of Class A notes refer to distributions, notices, reports and statements to The Depository Trust Company or its nominee, as the registered holder of the Class A notes, for distribution to holders of Class A notes under The Depository Trust Company’s procedures. See “—*Book-entry Registration*” in this offering memorandum.

### Interest Rates

Except for the first accrual period, the Class A notes will bear interest at a rate equal to one-month LIBOR plus 0.70% per annum.

LIBOR for the first accrual period for the Class A notes will be determined by the following formula:

$$x + [a/b * (y - x)]$$

where:

x = two-month LIBOR;

y = three-month LIBOR;

a = the actual number of days from the maturity date of two-month LIBOR to the first distribution date; and

b = the actual number of days from the maturity date of two-month LIBOR and the maturity date of three-month LIBOR.

In each case, LIBOR will be determined on the days specified under “—*Determination of LIBOR*” in this offering memorandum.

### Distributions of Interest

Interest will accrue on the principal balance of the Class A notes at the Class A interest rate described herein. Interest will accrue during each accrual period and will be payable to the holders of Class A notes on each distribution date. Interest accrued on the Class A notes as of any distribution date but not paid on that distribution date will be due on the next distribution date together with an amount equal to interest on the unpaid amount at the interest rate borne by the Class A notes. Interest payments to the holders of Class A notes will generally be funded from Available Funds remaining after the distribution of the monthly issuer fees; and if necessary, from amounts on deposit in the reserve account. See “—*Allocations and Distributions*” and “*CREDIT ENHANCEMENT*” in this offering memorandum.

### Distributions of Principal

On each distribution date, any Available Funds remaining after all prior required distributions as described in this offering memorandum below under “—*Allocations and Distributions*” will be used to pay principal on the Class A notes and the subordinate Class B notes, in that order, until their respective outstanding principal amounts are reduced to zero. See “—*Allocations and Distributions*” in this offering memorandum. As a result of the priority of payments, no payments of principal on the subordinate Class B notes will be made until the outstanding principal amount of the Class A notes has been reduced to zero.

The aggregate outstanding principal amount of the Class A notes will be due and payable in full on the final maturity date. The actual date on which the aggregate outstanding principal and accrued interest of the Class A notes is paid may be earlier than its

final maturity date, based on a variety of factors as described in this offering memorandum. See “*PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE CLASS A NOTES.*”

### **Determination of LIBOR**

The indenture trustee will calculate the interest on each class of the notes. In the absence of manifest error, all determinations of interest on the notes by the indenture trustee will be conclusive for all purposes and binding on the holders of the notes. All percentages resulting from any calculation of the rate of interest on the notes will be rounded, if necessary, to the nearest 1/100,000 of 1%, or 0.0000001, with five one-millionths of a percentage point being rounded upward.

LIBOR, for any accrual period, will be the London interbank offered rate for deposits in U.S. Dollars having the specified maturity commencing on the first day of the accrual period, as that rate appears on the Reuters 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. If no rate is so reported on the related LIBOR Determination Date, the rate for that day will be determined on the basis of the rates at which deposits in U.S. Dollars, having the specified 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 the Reference Banks. The indenture trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference 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 indenture trustee, at approximately 11:00 a.m., New York time, on that LIBOR Determination Date, for loans in U.S. Dollars to leading European banks having the specified 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, LIBOR in effect for the applicable accrual period will be LIBOR for the specified maturity in effect for the previous accrual period.

For this purpose:

- “LIBOR Determination Date” means, for each accrual period, the second business day before the beginning of that accrual period.
- “Reference Banks” means four major banks in the London interbank market selected by the indenture trustee.
- “Reuters LIBOR01 Page” means the display page so designated on the Reuters Monitor Money Rates Service or any other page that may replace that page on that service for the purpose of displaying comparable rates or prices.

For purposes of calculating LIBOR, a business day is any day on which banks in New York City and the City of London are open for the transaction of international business. Interest due for any accrual period will be determined based on the actual number of days elapsed in the accrual period over a 360-day year.

### **Book-entry Registration**

Purchasers acquiring beneficial ownership interests in the Class A notes issued in book-entry form will hold their Class A notes through The Depository Trust Company if they are a participant of that system, or indirectly through organizations that are participants in that system. Book-entry notes will be issued in one or more instruments that equal the aggregate principal balance of the Class A notes and will initially be registered in the name of Cede & Co., the nominee of The Depository Trust Company.

The information set forth in the following numbered paragraphs is based on information provided by The Depository Trust Company in its “Sample Offering Document Language Describing DTC and Book-Entry-Only Issuance” (December 2007). As such, we believe it to be reliable, but we take no responsibility for the accuracy or completeness of that information. It has been adapted to the note issue by substituting “Class A notes” for “Securities,” “issuer” for “Issuer” and “indenture trustee” for “registrar” and by the addition of the italicized language set forth in the text. See also the additional information following those numbered paragraphs.

1. The Depository Trust Company (“DTC”), New York, NY, will act as securities depository for the Class A notes. The Class A notes 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 note certificate will be issued for the Class A notes, in the aggregate principal amount of the Class A notes, and will be deposited with and retained by DTC or its agent.

2. 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 Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org). *(These internet sites are included for reference only, and the information in these internet sites is not incorporated by reference in this offering memorandum.)*

3. Purchases of Class A notes under the DTC system must be made by or through Direct Participants, which are to receive a credit for the Class A notes on DTC's records. The ownership interest of each actual purchaser of the Class A notes ("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 Class A notes are to be accomplished by entries made on the books of the Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Class A notes, except in the event that use of the book-entry system for the Class A notes is discontinued.

4. To facilitate subsequent transfers, all Class A notes 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 Class A notes 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 Class A notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Class A notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

5. 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 Class A notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Class A notes, such as redemptions, tenders, defaults and proposed amendments to the Class A notes documents. For example, Beneficial Owners of Class A notes may wish to ascertain that the nominee holding the Class A notes 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 indenture trustee and request that copies of the notices be provided directly to them.

6. *(Not applicable to the Class A notes.)*

7. Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Class A notes. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer *(or the indenture trustee, as appropriate)* as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Class A notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

8. Redemption proceeds, distributions and dividends *(principal and interest payments)* on the Class A notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the issuer or the indenture trustee, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the indenture 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 dividends *(principal and interest 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 indenture 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 and Indirect Participants.

9. (Not applicable to the Class A notes.)

10. DTC may discontinue providing its services as securities depository with respect to the Class A notes at any time by giving reasonable notice to the issuer or the indenture trustee. Under such circumstances, in the event that a successor depository is not obtained, note certificates are required to be printed (*or otherwise produced*) and delivered.

11. 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, note certificates will be printed (*or otherwise produced*) and delivered to DTC. (See also “*Revision of Book-Entry System; Replacement Notes.*”)

12. The information above 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.

Direct Participants and Indirect Participants may impose service charges on Beneficial Owners in certain cases. Purchasers of book-entry interests should discuss that possibility with their brokers.

The issuer and the indenture trustee have no role in the purchases, transfers or sales of book-entry interests. The rights of Beneficial Owners to transfer or pledge their interests, and the manner of transferring or pledging those interests, may be subject to applicable state law. Beneficial Owners may want to discuss with their legal advisors the manner of transferring or pledging their book-entry interests.

The issuer and the indenture trustee have no responsibility or liability for any aspects of the records or notices relating to, or payments made on account of, beneficial ownership, or for maintaining, supervising or reviewing any records relating to that ownership.

The issuer and the indenture trustee cannot and do not give any assurances that DTC, Direct Participants, Indirect Participants or others will distribute to the Beneficial Owners payments of debt charges on the Class A notes made to DTC as the registered owner, or redemption, if any, or other notices, or that they will do so on a timely basis, or that DTC, Direct Participants or Indirect Participants will serve or act in a manner described in this offering memorandum.

For all purposes under the note proceedings, DTC will be and will be considered by the issuer and the indenture trustee to be the owner or holder of the Class A notes.

Beneficial Owners will not receive or have the right to receive physical delivery of notes, and will not be or be considered by the issuer and the indenture trustee to be, and will not have any rights as, owners or holders of Class A notes under the note proceedings.

Reference herein to “DTC” includes when applicable any successor securities depository and the nominee of the depository.

#### **Revision of Book-Entry System; Replacement Notes**

The note proceedings provide for issuance of fully-registered notes (Replacement notes) directly to owners of Class A notes other than DTC only in the event that DTC (or a successor securities depository) determines not to continue to act as securities depository for the Class A notes. Upon occurrence of this event, the issuer may in its discretion attempt to have established a securities depository book-entry relationship with another securities depository. If the issuer does not do so, or is unable to do so, and after the indenture trustee has made provision for notification of the Beneficial Owners of the Class A notes by appropriate notice to DTC, the issuer and the indenture trustee will authenticate and deliver Replacement notes in authorized denominations (*of the applicable class*), to or at the direction of any persons requesting such issuance, and, if the event is not the result of issuer action or inaction, at the expense (including legal and other costs) of those requesting.

Debt charges on Replacement notes will be payable when due without deduction for the services of the indenture trustee as paying agent. Principal of and any premium on Replacement notes will be payable when due to the registered owner upon presentation and surrender at the designated corporate trust office of the indenture trustee. Interest on Replacement notes will be payable on the interest payment date by the indenture trustee by transmittal to the registered owner as of the day preceding the interest payment date. Replacement notes will be exchangeable for other Replacement notes of authorized denominations (*of the applicable class*), and transferable, at the corporate trust office of the indenture trustee without charge (except taxes or governmental fees).

## Accounts

The indenture trustee will establish and maintain under the indenture the student loan account (including a costs of issuance subaccount therein), the collection account, the reserve account and the distribution account on behalf of the holders of notes.

Funds in the collection account, the distribution account and the reserve account will be invested as provided in the indenture in eligible investments. Eligible investments are generally limited to investments acceptable to the rating agencies as being consistent with the rating of the Class A notes. Eligible investments are limited to obligations or securities that mature or may be redeemed not later than the business day immediately preceding the next distribution date when the money held for the credit of such account will be required for the purposes intended.

## Monthly Issuer Fees

The fees and expenses payable by the indenture trustee prior to distribution of principal and interest on the notes include payments to the Secretary of Education as rebate fees and fees to any guarantee agency, each subservicer, the indenture trustee, the eligible lender trustee, the rating agencies and the Administration Fee and any Additional Fees payable to the master servicer.

The monthly rebate fee to the Secretary of Education is payable at an annualized rate generally equal to 1.05% on principal of and interest on Federal Consolidation Loans disbursed on or after October 1, 1993. See “*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Fees—Rebate Fee on Federal Consolidation Loans*” in this offering memorandum for information regarding the rebate fee payable to the Secretary of Education.

The contracts with each subservicer provide for monthly fees for the servicing of student loans according to schedules set forth in each subservicing agreement. The fees are charged on a per borrower basis or a percentage of the principal balance of the student loans serviced. In the first quarter of 2012, the subservicing fees were approximately 0.23% per annum of the principal balance of the student loans. Because certain of the subservicing fees are charged on a per borrower basis, we believe that the subservicing fees will increase over time (as the principal balance of the student loans is reduced) to an estimated amount equal to approximately 0.48% per annum of the principal balance of the student loans. The fees of the subservicers are generally subject to certain increases upon prior written notice under each subservicing agreement. As a result, our estimation of the subservicing fees may be materially different from the future subservicing fees that are actually paid.

We have estimated the standard fees of the indenture trustee and the eligible lender trustee to aggregate to an amount not to exceed 0.0125% per annum of the principal amount of notes outstanding.

We have estimated the combined total of any Ancillary Subservicing Fees and any Extraordinary Indenture Trustee Expenses at an aggregate amount not to exceed \$75,000 per annum.

We have estimated the annual surveillance fees of the rating agencies at an amount not to exceed \$26,000 per annum.

We have estimated the combined total of any legal or similar miscellaneous expenses of the indenture trustee, the eligible lender trustee and each rating agency at an aggregate amount not to exceed \$5,000 per annum.

The master servicer will receive an Administration Fee equal to 0.25% per annum of the average monthly outstanding principal balance of student loans held in the trust estate under the indenture. The Administration Fee payable to the master servicer does not include any fees or other amounts due to other third parties. Under the back-up subservicing agreement, the master servicer is required to pay from its general funds on behalf of the issuer the annual maintenance fee of the back-up subservicer, if any, and any such amounts also may be paid as Ancillary Subservicing Fees under the indenture. See “*REGARDING THE STUDENT LOANS—Description of Subservicers*” in this offering memorandum. The master servicer also may receive Additional Fees for directly performing certain servicing obligations that would otherwise be performed by a subservicer. Any such Additional Fees paid to the master servicer, however, may not exceed the amount that otherwise would have been paid to a subservicer for performing those servicing obligations. The Administration Fee and any Additional Fees are payable from the trust estate prior to the payment of principal and interest on the notes. After the payment of required principal and interest on the notes, the master servicer is also entitled to receive Reimbursement Payments before any amounts are released from the trust estate and paid to the residual certificateholder.

The issuer will covenant in the indenture that the amount of all of the fees and expenses of the indenture trustee (including any Extraordinary Indenture Trustee Expenses), the eligible lender trustee, each rating agency, any Ancillary Subservicing Fees and the consolidation loan rebate fees that are paid under the indenture prior to distributions of principal and interest on the notes (collectively, the “program fees”) will not exceed the aggregate amount of our estimates for those fees and expenses as set forth above; provided, however, the permitted amount of those fees and expenses (other than program expenses consisting of Ancillary



Subservicing Fees payable to Brazos Loan Servicing, Inc.) may be increased at any time if a Rating Confirmation is obtained. The issuer also will covenant in the indenture that the amount of Standard Subservicing Fees payable to any subservicer under the indenture prior to distributions of principal and interest on the notes will not exceed the amounts of Standard Subservicing Fees payable to any subservicer pursuant to the existing terms set forth in the applicable subservicing agreements in effect on the closing. However, the permitted amount of Standard Subservicing Fees payable to any subservicer (other than Brazos Loan Servicing, Inc.) may be increased at any time if a Rating Confirmation is obtained. Under the indenture, the permitted amount of Standard Subservicing Fees and Ancillary Subservicing Fees payable to Brazos Loan Servicing, Inc. may not be increased if the Class A notes or the subordinate Class B notes are outstanding.

### **Allocations and Distributions**

***Deposits to Collection Account.*** On or about the business day immediately prior to each distribution date, the master servicer will provide the indenture trustee with certain information as to the preceding collection period, including the amount of Available Funds.

The master servicer will deposit, or cause the subservicers to deposit, all payments on student loans and all proceeds of student loans collected during each collection period into the collection account. The master servicer will deposit, or cause the subservicers to deposit, all interest subsidy payments and all special allowance payments on the student loans received for each collection period into the collection account.

***Monthly Allocations.*** On or prior to the 25th day of each month, the indenture trustee will make the following allocations with funds on deposit in the collection account:

- *first*, deposit into the distribution account for the Secretary of Education, (i) an amount equal to the monthly rebate fee payable to the Secretary of Education expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as further described under “—Distributions” and (ii) an amount equal to any required repayments to the Secretary of Education, if any, resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as described under “—Distributions”;
- *second*, deposit into the distribution account for any guarantee agency, pro rata, an amount equal to payments required to be made with respect to any FFELP loans under the applicable guarantee agreement and the Higher Education Act expected to be payable from the 25<sup>th</sup> day of the current calendar month to the 24<sup>th</sup> day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;
- *third*, deposit into the distribution account for each subservicer, pro rata, an amount equal to their fees expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;
- *fourth*, deposit into the distribution account for the indenture trustee, the eligible lender trustee and each rating agency, pro rata, an amount equal to their fees and expenses expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts; and
- *fifth*, deposit into the distribution account for the master servicer, the amounts of the Administration Fee and any Additional Fees expected to be payable to the master servicer from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts.

***Distributions.*** On each monthly expense payment date, the indenture trustee will pay the following fees from amounts on deposit in the distribution account and allocated to the payment of those fees, and to the extent of any insufficiency, from amounts on deposit in the collection account: (i) the monthly rebate fee to the Secretary of Education at an annualized rate generally equal to 1.05% on principal of and interest on Federal Consolidation Loans described under “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Fees—Rebate Fee on Federal Consolidation Loans” in this offering memorandum and any required repayment to the Secretary of Education resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, as described in this offering memorandum under “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Recapture of Excess Interest,” (ii) pro rata, the amounts payable to any guarantee agency with respect to the FFELP loans, (iii) pro rata, the fees of each subservicer, (iv) pro rata, the fees and expenses of the

indenture trustee, the eligible lender trustee and each rating agency, and (v) the Administration Fees of the master servicer and any Additional Fees payable to the master servicer.

On each distribution date, the indenture trustee will make the deposits and distributions set forth below, in the amounts and in the order of priority shown below, except as otherwise provided in this offering memorandum under “*CREDIT ENHANCEMENT—The Subordinate Class B Notes—Subordination of the Subordinate Class B Notes.*” These deposits and distributions will be made from and to the extent of the Available Funds on that distribution date after payment of the amounts set forth in the immediately preceding paragraph during the related collection period; and from amounts transferred from the reserve account with respect to clauses (a) and (c) below on that distribution date and with respect to the payment of principal on the notes at their final maturities.

- (a) to the holders of Class A notes, the Class A Noteholders’ Interest Distribution Amount;
- (b) to the applicable holders of Class A notes, the amounts, if any, necessary to pay principal on the Class A notes due on such distribution date as a result of the final maturity thereof;
- (c) to the holders of subordinate Class B notes, the Class B Noteholders’ Interest Distribution Amount;
- (d) to the reserve account, the amount, if any, necessary to reinstate the balance of the reserve account to the Reserve Account Requirement;
- (e) to the holders of Class A notes, to pay principal until the outstanding principal amount of the Class A notes is reduced to zero;
- (f) to the holders of subordinate Class B notes, to pay principal until the outstanding principal amount of the subordinate Class B notes is reduced to zero;
- (g) to the holders of subordinate Class B notes, the Class B Noteholders’ Carry-Over Amount;
- (h) to any subservicer, the indenture trustee, the eligible lender trustee, the rating agencies and the master servicer, ratably, for all amounts due to each of them and not previously paid;
- (i) to the master servicer, any Reimbursement Payments; and
- (j) to the residual certificateholder, any remaining amounts after application of the preceding clauses.

See “*DESCRIPTION OF THE INDENTURE—Events of Default*” and “*—Remedies on Default*” in this offering memorandum for a description of the cash flows following the occurrence of an event of default that has resulted in an acceleration of the maturity of the notes.

No amounts will be transferred from the collection account to the residual certificateholder until the outstanding principal amount of each class of notes has been reduced to zero. The issuer will be the residual certificateholder on the closing date.

### **Voting Rights and Remedies**

Holders of notes will have the voting rights and remedies described in this offering memorandum. See “*DESCRIPTION OF THE INDENTURE—Remedies on Default*” in this offering memorandum.

### **Optional Purchase**

The issuer will notify the indenture trustee within 15 days after the first distribution date on which the then outstanding Pool Balance is 10% or less of the Initial Pool Balance. The issuer may purchase or arrange for the purchase of all remaining student loans held in the trust estate on the next distribution date following such notice. The exercise of this purchase option will result in the early retirement of the remaining notes. The purchase price will equal the greater of (i) the fair market value for the student loans and (ii) a prescribed minimum purchase amount, less any amounts on deposit in the accounts under the indenture.

This prescribed minimum purchase amount is the amount that would be sufficient to:

- reduce the outstanding principal amount of the notes then outstanding on the related distribution date to zero;
- pay to holders of notes the interest payable on the related distribution date;

- pay to holders of Class B notes any Class B Noteholders' Carry-Over Amount payable on the related distribution date; and
- pay any unpaid monthly issuer fees as described in this offering memorandum under “—*Monthly Issuer Fees*” on the related distribution date.

### **Auction of the Student Loans**

The indenture trustee will offer for sale by auction all remaining student loans following the first distribution date when the Pool Balance is 10% or less of the Initial Pool Balance. The auction date will be the 3rd business day before the next distribution date. An auction will occur only if the issuer has first waived its optional purchase right. The issuer will be deemed to have waived its option to purchase the remaining student loans if it fails to notify the eligible lender trustee and the indenture trustee, in writing, that it intends to exercise its purchase option before the indenture trustee accepts a bid to purchase the student loans. The issuer, the master servicer, any entity managed by the master servicer, and unrelated third parties may offer bids to purchase the student loans.

If at least two bids are received, the indenture trustee will solicit and re-solicit new bids from all participating bidders until only one bid remains or the remaining bidders decline to resubmit bids. The indenture trustee will accept the highest of the remaining bids if it equals or exceeds (a) the minimum purchase amount described herein under “—*Optional Purchase*” or (b) the fair market value of the student loans as of the end of the related collection period whichever is higher. If at least two bids are not received or the highest bid after the re-solicitation process does not equal or exceed that amount, the indenture trustee will not complete the sale. The indenture trustee may, and at the direction of the issuer will be required to, consult with a financial advisor, including a placement agent or the master servicer, to determine if the fair market value of the student loans has been offered.

The net proceeds of any auction sale will be used to retire any outstanding notes on the related distribution date.

If the sale is not completed, the indenture trustee will, to the extent practical based on market conditions, solicit bids for sale of the student loans after future collection periods upon terms similar to those described above, including the issuer's waiver of its option to purchase remaining student loans. The indenture trustee may consult with and conclusively rely upon the advice of a financial advisor having recognized experience in the valuation and sale of student loans to determine whether it is practical, based on market conditions, to solicit bids for the sale of the student loans.

If the student loans are not sold as described above, on each subsequent distribution date, the indenture trustee will continue to apply amounts on deposit in the collection account as described under “—*Allocations and Distributions—Distributions*” in this offering memorandum.

### **PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE CLASS A NOTES**

The rate of payment of principal of the Class A notes and the yield on the Class A notes will be affected by prepayments on the student loans held in the trust estate that may occur as described below. Therefore, payments on the Class A notes could occur significantly earlier than expected. Consequently, the actual maturities on the Class A notes could be significantly earlier, average lives of the Class A notes could be significantly shorter, and periodic balances could be significantly lower, than expected. Each student loan is prepayable 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 thereto. The rate of those prepayments cannot be predicted and may be influenced by a variety of economic, social, competitive and other factors, including as described below. In general, 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 applicable to the student loans. Prepayments could increase as a result of certain borrower incentive programs, among other factors.

On the other hand, the rate of principal payments and the yield on the Class A notes will be affected by scheduled payments with respect to, and maturities and average lives of, the student loans. These may be lengthened as a result of, among other things, grace periods, deferral periods, forbearance periods, or repayment term or monthly payment amount modifications. Therefore, payments on the Class A notes could occur significantly later than expected. Consequently, actual maturities and weighted average lives of the Class A notes could be significantly longer than expected and periodic balances could be significantly higher than expected. The rate of payment of principal of the Class A notes and the yield on the Class A notes may also be affected by the rate of defaults resulting in losses on defaulted student loans which have been liquidated, by the severity of those losses and by the timing of those losses, which may affect the ability of the guarantors to make timely guarantee payments with respect to the FFELP loans. In addition, the maturity of certain of the student loans could extend beyond the final maturity date for the Class A notes.

The rate of prepayments on the student loans cannot be predicted due to a variety of factors, some of which are described above, and any reinvestment risks resulting from a faster or slower incidence of prepayment of student loans will be borne entirely by the holders of Class A notes. Such reinvestment risks may include the risk that interest rates and the relevant spreads above particular interest rate indices are lower at the time holders of Class A notes receive payments from the issuer than those interest rates and those spreads would otherwise have been if those prepayments had not been made or had those prepayments been made at a different time.

The projected weighted average life, expected maturity date and percentages of remaining principal amount of the Class A notes under various assumed prepayment scenarios are set forth in this offering memorandum in “*APPENDIX D—Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes.*”

## CREDIT ENHANCEMENT

### Excess Interest

Excess interest is created when interest collections received on the student loans held in the trust estate during a collection period and related investment earnings exceed the interest on the notes at the related note interest rates and certain fees and expenses of the issuer. Excess interest is intended to provide “first loss” protection for the notes. Excess interest (as part of all interest collections) will be collected and deposited into the collection account and will become part of the Available Funds. There can be no assurance as to the rate, timing or amount, if any, of excess interest. The application of excess interest to the payment of principal on your Class A notes will affect the weighted average life and yield on your investment.

### Parity Percentage

In this offering memorandum, (a) the Class B parity percentage refers to the ratio (expressed as a percentage) of the value of the assets in the trust estate, less accrued unpaid interest (other than Class B Noteholders’ Carry-Over Amount, if any) and fees with respect to all our notes, to the principal amount of all our Class A notes and subordinate Class B notes outstanding and (b) the Class A parity percentage refers to the ratio (expressed as a percentage) of the value of the assets in the trust estate, less accrued unpaid interest (other than Class B Noteholders’ Carry-Over Amount, if any) and fees with respect to all our notes, to the principal amount of all our Class A notes outstanding.

Based on information relating to the portfolio of student loans as of the statistical cut-off date, and after giving effect to all deposits and distributions described under “*USE OF PROCEEDS,*” on the closing date we expect the Class B parity percentage to be approximately 100.9% and the Class A parity percentage to be approximately 103.6%.

For purposes of these calculations, the value of the assets in the trust estate are calculated as the sum of (i) 100% of the unpaid principal amount of the pledged student loans, plus any accrued but unpaid interest thereon, (ii) the amount of cash held in any pledged accounts maintained under the indenture (excluding any amounts on deposit in the costs of issuance subaccount of the student loan account) and (iii) with respect to the investment of pledged funds pursuant to an investment contract, the bid price of the applicable shares as reported by the related investment company.

The student loans actually pledged under the indenture on the closing date will have characteristics that differ somewhat from the characteristics of the student loans described herein due to payments received on and other changes in these loans that occur during the period from the statistical cut-off date to the closing date. These changes could result in the actual Class B parity percentage and Class A parity percentage on the closing date to vary somewhat from the estimated Class B parity percentage and Class A parity percentage set forth above. However, we do not expect that the actual Class B parity percentage or Class A parity percentage on the closing date will differ materially from the estimated percentages set forth above.

### Reserve Account

The indenture trustee will make a deposit into the reserve account on the closing date. The deposit will be in cash or eligible investments in an amount equal to the amount described in this offering memorandum under “*USE OF PROCEEDS.*” Following this deposit, cash or eligible investments equal to the Reserve Account Requirement will be required to be maintained on deposit in the reserve account unless otherwise depleted in accordance with the terms of the indenture as described below. The reserve account will be replenished on each distribution date, by deposit into it the amount, if any, necessary to reinstate the balance of the reserve account to the Reserve Account Requirement from the amount of Available Funds remaining after payment on that date under clauses (a) through (c) under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions.*”

If the amount in the reserve account, together with other amounts on deposit in the other pledged accounts held under the indenture, on any distribution date are sufficient to pay the remaining principal amount of and interest accrued on the notes (excluding any Class B Noteholders' Carry-Over Amount with respect to the subordinate Class B notes, provided that any unpaid Class B Noteholders' Carry-Over Amount will remain outstanding until it is paid or until the balances in the accounts held under the indenture and the Pool Balance have each been reduced to zero), such amounts on deposit will be so applied on that distribution date.

If the amount on deposit in the reserve account at the end of any collection period after giving effect to all deposits or withdrawals from the reserve account on or prior to that date is greater than the Reserve Account Requirement, the indenture trustee will deposit the amount of the excess into the collection account to be included as Available Funds on the next distribution date.

Amounts held from time to time in the reserve account will be held for the benefit of the holders of notes. Funds will be withdrawn from the reserve account on any distribution date to the extent that the amount of Available Funds on that distribution date are insufficient to pay the (i) Class A Noteholders' Interest Distribution Amount and (ii) Class B Noteholders' Interest Distribution Amount as specified under "*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions.*"

In addition, the reserve account will be available:

- (a) on the maturity date for the Class A notes, to cover shortfalls in payments of principal of and accrued interest on the Class A notes; and
- (b) if Class A notes are no longer outstanding, on the maturity date for the subordinate Class B notes, to cover shortfalls in payments of principal of and accrued interest on the subordinate Class B notes.

These funds will be paid from the reserve account to the persons and in the order of priority specified for distributions out of the collection account as described in this offering memorandum under "*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions.*"

The reserve account is intended to enhance the likelihood of timely distributions of interest to the holders of notes and to decrease the likelihood that the holders of notes will experience losses. In some circumstances, however, the reserve account could be reduced to zero.

### **The Subordinate Class B Notes**

**General.** On the closing date, the subordinate Class B notes will also be issued pursuant to the indenture. The subordinate Class B notes are not being offered pursuant to this offering memorandum. The subordinate Class B notes will be the only series of subordinate class B notes outstanding under the indenture. After the closing date, no additional notes or other obligations will be issued under the indenture. It is a condition to the sale of the Class A notes that the subordinate Class B notes be issued under the indenture.

The following is a summary of some of the terms that will be contained in the indenture with respect to the subordinate Class B notes.

**Subordinate Class B Notes.** On the closing date, the issuer is issuing the Subordinate LIBOR Floating Rate Student Loan Asset-Backed Notes, Series 2012B-1, in the amount of \$3,000,000. The subordinate Class B notes will mature no later than December 26, 2046.

It is a condition to the issuance of the subordinate Class B notes that they be rated at least "AsF" by Fitch Ratings. The rating on subordinate Class B notes will not address the likelihood of the payment of any Class B Noteholders' Carry-Over Amount that may accrue on the subordinate Class B notes.

**Interest Rate.** Subject to the Class B Noteholders' Interest Cap described below, the subordinate Class B notes will be LIBOR-based notes. Interest will accrue generally on the principal balance of the subordinate Class B notes at the one-month LIBOR indexed rate set forth below during one-month accrual periods. An accrual period for the subordinate Class B notes begins on a distribution date and ends on the day before the next distribution date. The first accrual period for the subordinate Class B notes, however, will begin on the closing date and end on the day before the first distribution date.

Except for the first accrual period, the subordinate Class B notes will bear interest at a rate equal to one-month LIBOR plus 3.00%, subject to the Class B Noteholders' Interest Cap.

LIBOR for the first accrual period for the subordinate Class B notes will be determined pursuant to the same formula used for the Class A notes as described in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Information about the Notes—Interest Rates.*” LIBOR for the subordinate Class B notes will be determined on the days specified in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Determination of LIBOR.*” For the subordinate Class B notes, we will calculate interest based on the actual number of days elapsed in each accrual period divided by 360.

Interest distributions on the subordinate Class B notes are subject to the Class B Noteholders’ Interest Cap, which, for any distribution date (other than the first distribution date on the subordinate Class B notes, for which the Class B Noteholders’ Interest Cap shall not apply), may result in the Class B Interest Accrual Amount for the subordinate Class B notes exceeding the Class B Noteholders’ Interest Distribution Amount for the subordinate Class B notes. Any such excess is referred to herein as the Class B Noteholders’ Carry-Over Amount. No payment of Class B Noteholders’ Carry-Over Amount on the subordinate Class B notes will be made on any distribution date until the outstanding principal amount of the Class A notes has been reduced to zero and the outstanding principal amount of the subordinate Class B notes has been reduced to zero. See “*CREDIT ENHANCEMENT—The Subordinate Class B Notes*” in this offering memorandum. The amount of interest actually payable on the subordinate Class B notes on each distribution date will be equal to the Class B Noteholders’ Interest Distribution Amount and will be paid on distribution dates but only to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions.*”

The “Class B Noteholders’ Carry-Over Amount” means, with respect to any accrual period, the sum of (A) the amount, if any, by which (i) the Class B Noteholders’ Interest Accrual Amount for such accrual period exceeds (ii) the Class B Noteholders’ Interest Cap, and (B) the Class B Noteholders’ Carry-Over Amount from prior periods plus interest on the amount of that Class B Noteholders’ Carry-Over Amount, to the extent permitted by law, at the interest rate applicable for the Class B Notes from that preceding distribution date to the current distribution date (which interest rate, for lack of doubt, shall be calculated without regard to the Class B Noteholders’ Interest Cap). References to principal or interest in the indenture do not include within the meanings of such words Class B Noteholders’ Carry-Over Amount or any accrued interest on Class B Noteholders’ Carry-Over Amount.

The “Class B Noteholders’ Interest Accrual Amount” means, for any distribution date, the amount of interest accrued at the LIBOR indexed interest rate applicable to the subordinate Class B notes described above for the related accrual period on the outstanding amount of the subordinate Class B notes on the immediately preceding distribution date (or, in the case of the first distribution date, the closing date), after giving effect to all principal distributions to subordinate Class B noteholders on that preceding distribution date (and for lack of doubt, calculated without regard to the Class B Noteholders’ Interest Cap).

The “Class B Noteholders’ Interest Cap” means, with respect to any distribution date, an amount equal to (a) the actual number of days in the current year divided by 360 multiplied by the difference between (i) the sum of all non-principal amounts accrued on the student loans pledged under the indenture during the related collection period, whether due from a borrower, a guaranty agency or the Department of Education (including, without limitation, special allowance payments and interest subsidy payments) and (ii) amounts not attributable to principal that are payable to the Department of Education that accrued during the related collection period (including, without limitation, special allowance payments and consolidation loan rebate fees); less (b) the fees and expenses payable under the indenture and described in the first paragraph under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions*” that accrued during the related collection period and less (c) the Class A Noteholders’ Interest Distribution Amount for such distribution date. The Class B Noteholders’ Interest Cap may not be less than zero. On the first distribution date for the subordinate Class B notes, the Class B Noteholders’ Interest Cap will not apply.

“Class B Noteholders’ Interest Distribution Amount” means, for any distribution date, the sum of: (1) the lesser of (A) the Class B Noteholders’ Interest Accrual Amount and (B) the Class B Noteholders’ Interest Cap, and (2) the Class B Note Interest Shortfall for all prior distribution dates (to the extent not previously paid) with respect to the subordinate Class B notes (other than the first distribution date on the subordinate Class B notes for which the Class B Noteholders’ Interest Cap shall not apply).

***Subordination of the Subordinate Class B Notes.*** On any distribution date, distributions of Class B Noteholders’ Interest Distribution Amount on the subordinate Class B notes will be subordinate to the payment of interest on the Class A notes and to the payment of principal due and payable on the final maturity date for the Class A notes. Consequently, on any distribution date, Available Funds and amounts on deposit in the reserve account will be applied to the payment of interest on the Class A notes prior to any payment of Class B Noteholders’ Interest Distribution Amount on the subordinate Class B notes. No payments of principal on the subordinate Class B notes will be made on any distribution date until the outstanding principal amount of the Class A notes has been reduced to zero. No payments of Class B Noteholders’ Carry-Over Amount on the subordinate Class B notes will be made on any distribution date until the outstanding principal amount of the Class A notes has been reduced to zero and the outstanding principal amount of the subordinate Class B notes has been reduced to zero. See “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions*” in this offering memorandum.

If an event of default relating to payment or bankruptcy under the indenture affecting the Class A notes has occurred and is continuing as described in this offering memorandum under “*DESCRIPTION OF THE INDENTURE—Events of Default*,” but such event of default has not resulted in an acceleration of the maturity of the notes, then until such event of default no longer exists, the amounts on deposit in the collection account and the reserve account will be applied on that distribution date to the payment of the interest on and principal of any outstanding Class A notes before any amounts are applied to the payment of the Class B Noteholders’ Interest Distribution Amount on, principal of or Class B Noteholders’ Carry-Over Amount relating to any subordinate Class B notes.

As long as any Class A notes are outstanding, the failure to pay Class B Noteholders’ Interest Distribution Amount on any subordinate Class B notes will not constitute an event of default under the indenture. Payment of the Class B Noteholders’ Carry-Over Amount is payable at a lower priority under the indenture, and the failure to pay such Class B Noteholders’ Carry-Over Amount is not an event of default under the indenture.

After the outstanding principal amount of the Class A notes has been reduced to zero and the outstanding principal amount of the subordinate Class B notes has been reduced to zero, the Class B Noteholders’ Carry-Over Amount, if any, will be paid on distribution dates but only to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions*.” Any Class B Noteholders’ Carry-Over Amount will be canceled at such time as the balances in the accounts held under the indenture and the Pool Balance have each been reduced to zero.

***Optional Redemption of the Subordinate Class B Notes.*** After the outstanding amount of the Class A notes has been reduced to zero, the subordinate Class B notes are subject to redemption in whole or in part at the option of the issuer from any sum of funds on any distribution date at a redemption price equal to the principal amount of the subordinate Class B notes being redeemed, plus accrued and unpaid interest, if any, to the date of redemption (including payment of any Class B Noteholders’ Carry-Over Amount). If less than all of the subordinate Class B notes are to be redeemed, the subordinate Class B notes will be redeemed, pro rata, based on the outstanding amount of such subordinate Class B notes held by each holder of subordinate Class B notes.

## SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

### General

The notes will be special, limited obligations of the issuer, secured by and payable solely from the trust estate created under the indenture. The following assets will serve as security for the notes:

- revenues, consisting of all principal and interest payments, proceeds, charges and other income received by the indenture trustee, the issuer or the master servicer, on account of any of the student loans held in the trust estate, including interest benefit payments and any special allowance payments with respect to any of those student loans, and investment income from all accounts created under the indenture and any proceeds from the sale or other disposition of those student loans;
- all money and investments held in the accounts created under the indenture; and
- the student loans held in the trust estate.

The provisions of the indenture generally will be for the equal benefit, protection and security of the holders of all of the notes issued thereunder. However, the Class A notes issued under the indenture will have priority over the subordinate Class B notes issued thereunder. See “*CREDIT ENHANCEMENT—The Subordinate Class B Notes*” in this offering memorandum.

In addition, under the indenture, the issuer has assigned to the indenture trustee for the benefit of the holders of notes all of the issuer’s right, title and interest in the master servicing agreement, each subservicing agreement, each student loan purchase agreement, the transfer and sale agreement, each custodian agreement, the back-up subservicing agreement and each guarantee agreement.

## USE OF PROCEEDS

### General

Proceeds from the sale of the Class A notes will be used to make a deposit to the student loan account, to make a deposit to the reserve account, to make a deposit to the collection account and to make a deposit to the costs of issuance subaccount of the student loan account.

### Estimated Sources and Uses

#### SOURCES

Proceeds of the Class A notes	\$109,087,572.00
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#### USES

Deposit to Student Loan Account	\$105,640,586.56
Deposit to Reserve Account	289,939.00
Deposit to Collection Account	1,982,226.44
Deposit to Costs of Issuance Subaccount of the Student Loan Account	<u>1,174,820.00</u>
TOTAL USES	<u>\$109,087,572.00</u>

The costs of issuing the notes will be paid from amounts on deposit in the costs of issuance subaccount of the the student loan account. Costs of issuance include rating agency fees, printing costs, fees and expenses of the placement agents, the indenture trustee, legal fees and other miscellaneous costs of issuance. The total costs of issuance are expected to be approximately \$1,174,820.

Using the amounts on deposit in the student loan account, we expect to purchase a portfolio of student loans that had, as of the statistical cut-off date, an aggregate principal balance (including accrued interest to be capitalized) of approximately \$115,975,503.50 on the closing date. Certain information relating to the portfolio of student loans expected to be acquired with a portion of the proceeds of the Class A notes on the closing date is provided in this offering memorandum under “*CHARACTERISTICS OF THE STUDENT LOANS.*” The student loans will be pledged to the trust estate created under the indenture. The issuer will enter into a transfer and sale agreement with a non-profit corporation (the “seller”) for the purchase of the portfolio of student loans to be purchased on the closing date. The master servicer conducts and operates the business affairs of the seller. See “*THE MASTER SERVICER*” in this offering memorandum. Pursuant to a separate indenture of trust (the “seller indenture”), the seller has previously issued student loan asset-backed auction rate securities that are currently secured by the student loans that the issuer will acquire on the closing date. Under the terms of the transfer and sale agreement, the seller will establish a special escrow fund with the indenture trustee under the seller indenture. On the closing date, the seller will be required to deposit all of the loan sale proceeds received from the issuer, and all of the other amounts on deposit in the pledged funds held under the seller indenture, to the special escrow fund maintained by the indenture trustee. The amounts on deposit in the special escrow fund will be held irrevocably in trust for the sole benefit of the holders of the asset-backed auction rate securities that were previously issued under the seller indenture. Upon such deposit, the asset-backed auction rate securities previously issued by the seller will no longer be deemed outstanding under the seller indenture, the lien created under the seller indenture with respect to those student loans will be terminated and released and the seller will assign to the issuer all of its rights, title and interest in certain of the student loans previously held under the seller indenture pursuant to the transfer and sale agreement. The indenture trustee under the seller indenture will disburse from the escrow fund the amounts sufficient to redeem or purchase and cancel all of the asset-backed auction rate securities that were previously issued by the seller under the seller indenture. On the closing date, the student loans acquired from the seller will be pledged to the trust estate created under the indenture. The seller will not make any representations with respect to the portfolio of student loans to be purchased on the closing date (other than with respect to the transfer of good and marketable title to such student loans, free and clear of any liens thereon), but the seller will assign to the issuer, and the issuer will assign to the indenture trustee for the benefit of the holders of notes, all of the seller’s right, title and interest in each student loan purchase agreement and subservicing agreement pursuant to which the student loans were respectively purchased by and serviced for the seller prior to the closing date.

The placement agents or their respective affiliates own asset-backed auction rate securities that were previously issued by the seller under the seller indenture that will be refunded.



## THE PLEDGED STUDENT LOANS

A description of the issuer and the issuer's student loan program is provided in this offering memorandum. See "*THE ISSUER*" in this offering memorandum. Certain information relating to the portfolio of student loans that will be held in the trust estate under the indenture is provided in this offering memorandum. See "*CHARACTERISTICS OF THE STUDENT LOANS*" in this offering memorandum. All of the student loans will be pledged to the indenture trustee to secure repayment of the notes issued under the indenture. The student loans will be held in the trust estate created under the indenture.

Except for any substitutions or acquisitions of student loans as described under "*DESCRIPTION OF THE INDENTURE—Pledge of Certain Rights*" and "*—Sale of Student Loans Held in the Trust Estate*," the only student loans to be pledged to the indenture trustee under the indenture are the student loans that we intend to acquire with a portion of the proceeds of the Class A notes on the closing date that are described herein, and there will be no subsequent acquisitions of or recycling of student loans into the trust estate under the indenture.

## CHARACTERISTICS OF THE STUDENT LOANS

The following tables provide a description of certain characteristics of the student loans that will be pledged under the indenture to secure the notes. Information relating to this portfolio of student loans is as of the statistical cut-off date.

The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers (excluding accrued interest to be capitalized) of approximately \$115,415,725.81 as of the statistical cut-off date.

The student loans pledged under the indenture on the closing date will have characteristics that differ somewhat from the characteristics of the student loans described herein due to payments received on and other changes in these loans that occur during the period from the statistical cut-off date to the closing date. As a consequence, the characteristics of the final pool of student loans that is pledged under the indenture to secure the notes may vary from the characteristics of the student loans shown below; however, we do not believe that this variance will be material.

The distribution by weighted average interest rate applicable to the student loans on any date following the statistical cut-off date may vary significantly from that in the following tables as a result of variations in the effective rates of interest applicable to the student loans. Moreover, the information below about the weighted average remaining terms to maturity of the student loans as of the statistical cut-off date may vary significantly from the actual terms to maturity of any of the student loans as a result of prepayments or the granting of deferment and forbearance periods on any of the student loans.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans.

Percentages and dollar amounts in any table may not total 100% or the student loan balance, as applicable, due to rounding.

**Composition of the Student Loan Portfolio  
(As of the Statistical Cut-Off Date)**

Aggregate Outstanding Principal Balance	\$115,415,725.81
Aggregate Outstanding Principal Balance of FFELP Loans - Treasury Bill	\$1,891,167.62
Aggregate Outstanding Principal Balance of FFELP Loans- One Month LIBOR <sup>(1)</sup>	\$109,832,104.28
Aggregate Outstanding Principal Balance of HEAL Loans	\$3,692,453.91
Aggregate Accrued Interest to be Capitalized	\$559,777.69
Number of Borrowers <sup>(2)</sup>	6,010
Average Outstanding Principal Balance Per Borrower	\$19,203.95
Number of Loans	11,861
Number of FFELP Loans - Treasury Bill	854
Number of FFELP Loans – One Month LIBOR <sup>(1)</sup>	10,730
Number of HEAL Loans	277
Average Outstanding Principal Balance Per Loan	\$9,730.69
Average Outstanding Principal Balance Per FFELP Loan - Treasury Bill	\$2,214.48
Average Outstanding Principal Balance Per FFELP Loan – One Month LIBOR <sup>(1)</sup>	\$10,235.98
Average Outstanding Principal Balance Per HEAL Loan	\$13,330.16
Weighted Average Remaining Term to Scheduled Maturity (months) <sup>(3)</sup>	193
Weighted Average Annual Borrower Stated Interest Rate <sup>(4)</sup>	3.977%

- (1) The special allowance payments for FFELP loans disbursed on or after January 1, 2000 were previously based upon a three-month commercial paper rate. Pursuant to Public Law 112-74, the issuer has permanently changed the index for special allowance payment calculations on all FFELP loans in its portfolio disbursed after January 1, 2000 from the three-month commercial paper rate to the one-month LIBOR index. See “*THE MASTER SERVICER—Recent Developments.*” Accordingly, the special allowance payments on all FFELP loans pledged under the indenture originated after January 1, 2000 will be calculated by reference to one-month LIBOR.
- (2) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.
- (3) We determined the weighted average remaining term to maturity shown in the table above from the statistical cut-off date to the stated maturity date of the applicable student loan, including any current deferment or forbearance periods, but without giving effect to any deferment or forbearance periods that may be granted in the future.
- (4) We determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may have been or may be earned by borrowers.

**Distribution of the Student Loans by Interest Rate  
(As of the Statistical Cut-Off Date)**

<u>Interest Rate</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
Less than 2.00% .....	804	\$ 2,260,904	1.96%
2.00% to 2.49% .....	3,836	10,297,574	8.92
2.50% to 2.99% .....	810	9,656,914	8.37
3.00% to 3.49% .....	1,155	11,974,899	10.38
3.50% to 3.99% .....	2,531	29,185,259	25.29
4.00% to 4.49% .....	1,299	21,164,251	18.34
4.50% to 4.99% .....	793	15,081,122	13.07
5.00% to 5.49% .....	146	4,120,361	3.57
5.50% to 5.99% .....	79	1,500,513	1.30
6.00% to 6.49% .....	119	2,797,828	2.42
6.50% to 6.99% .....	190	4,796,872	4.16
7.00% to 7.49% .....	28	668,641	0.58
7.50% to 7.99% .....	32	1,029,071	0.89
8.00% or greater .....	<u>39</u>	<u>881,517</u>	<u>0.76</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Range of Principal Balance  
(As of the Statistical Cut-Off Date)**

<u>Principal Balance</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
\$0 to \$499.99.....	1,189	\$ 302,819	0.26%
\$500.00 to \$999.99.....	1,023	756,664	0.66
\$1,000.00 to \$1,999.99.....	1,560	2,282,906	1.98
\$2,000.00 to \$2,999.99.....	1,078	2,699,781	2.34
\$3,000.00 to \$3,999.99.....	873	3,015,789	2.61
\$4,000.00 to \$4,999.99.....	626	2,812,977	2.44
\$5,000.00 to \$5,999.99.....	586	3,228,391	2.80
\$6,000.00 to \$6,999.99.....	491	3,189,980	2.76
\$7,000.00 to \$7,999.99.....	405	3,031,960	2.63
\$8,000.00 to \$8,999.99.....	321	2,732,176	2.37
\$9,000.00 to \$9,999.99.....	309	2,934,774	2.54
\$10,000.00 to \$14,999.99.....	1,142	14,041,957	12.17
\$15,000.00 to \$19,999.99.....	713	12,266,103	10.63
\$20,000.00 to \$24,999.99.....	433	9,635,789	8.35
\$25,000.00 to \$29,999.99.....	270	7,369,873	6.39
\$30,000.00 to \$34,999.99.....	191	6,164,885	5.34
\$35,000.00 to \$39,999.99.....	132	4,933,801	4.27
\$40,000.00 to \$44,999.99.....	95	4,043,062	3.50
\$45,000.00 to \$49,999.99.....	98	4,633,721	4.01
\$50,000.00 to \$54,999.99.....	55	2,885,834	2.50
\$55,000.00 to \$59,999.99.....	46	2,646,403	2.29
\$60,000.00 to \$64,999.99.....	48	2,996,755	2.60
\$65,000.00 to \$69,999.99.....	26	1,749,850	1.52
\$70,000.00 to \$74,999.99.....	25	1,817,340	1.57
\$75,000.00 to \$79,999.99.....	23	1,778,622	1.54
\$80,000.00 to \$84,999.99.....	15	1,228,481	1.06
\$85,000.00 to \$89,999.99.....	10	874,181	0.76
\$90,000.00 to \$94,999.99.....	9	828,890	0.72
\$95,000.00 to \$99,999.99.....	15	1,459,088	1.26
\$100,000.00 to \$109,999.99.....	14	1,460,985	1.27
\$110,000.00 to \$119,999.99.....	11	1,258,610	1.09
\$120,000.00 to \$129,999.99.....	8	1,002,196	0.87
\$130,000.00 to \$139,999.99.....	3	400,360	0.35
\$140,000.00 to \$149,999.99.....	8	1,144,716	0.99
\$150,000.00 or greater.....	<u>10</u>	<u>1,806,005</u>	<u>1.56</u>
Total.....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Remaining Term to Scheduled Maturity  
(As of the Statistical Cut-Off Date)**

<u>Remaining Term</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
0 - 24 .....	1,451	\$ 987,838	0.86%
25 - 36 .....	751	969,706	0.84
37 - 48 .....	575	1,088,879	0.94
49 - 60 .....	477	1,262,494	1.09
61 - 72 .....	768	2,655,706	2.30
73 - 84 .....	1,139	5,420,897	4.70
85 - 96 .....	822	4,912,634	4.26
97 - 108 .....	571	2,898,630	2.51
109 - 120 .....	924	5,561,040	4.82
121 - 132 .....	590	6,411,376	5.56
133 - 144 .....	812	9,387,236	8.13
145 - 156 .....	426	5,082,310	4.40
157 - 168 .....	258	3,270,467	2.83
169 - 180 .....	256	3,595,403	3.12
181 - 192 .....	320	5,471,755	4.74
193 - 220 .....	525	10,324,155	8.95
221 - 260 .....	618	17,544,281	15.20
261 - 300 .....	374	15,810,150	13.70
301 or greater .....	<u>204</u>	<u>12,760,768</u>	<u>11.06</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Borrower Payment Status  
(As of the Statistical Cut-Off Date)**

<u>Borrower Payment Status</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
School.....	12	\$ 55,945	0.05%
Deferral .....	1,287	11,210,166	9.71
Forbearance.....	682	8,251,731	7.15
Repayment First Year.....	1,049	12,518,328	10.85
Repayment Second Year .....	488	4,952,036	4.29
Repayment Third Year .....	590	7,006,475	6.07
Repayment Four Plus Years.....	7,668	70,767,158	61.32
Claims Filed .....	<u>85</u>	<u>653,887</u>	<u>0.57</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Scheduled Weighted Average Remaining Months in Status by Current Borrower Payment Status  
(As of the Statistical Cut-Off Date)**

<b><u>Current Borrower Payment Status</u></b>	<b><u>Claims</u></b>	<b><u>School</u></b>	<b><u>Grace</u></b>	<b><u>Deferment</u></b>	<b><u>Forbearance</u></b>	<b><u>Repayment<sup>(1)</sup></u></b>
Claims .....	-	-	-	-	-	209.8
Deferment .....	-	-	-	12.7	-	220.6
Forbearance .....	-	-	-	-	4.9	227.2
School .....	-	21.2	6	-	-	117.1
Repayment .....	-	-	-	-	-	186.8
Total .....	-	21.2	6	12.7	4.9	193.0

<sup>(1)</sup> Scheduled months shown in the table were determined without giving effect to any deferment or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Geographic Location  
(As of the Statistical Cut-Off Date)**

<b><u>Geographic Location</u></b>	<b><u>Number of Loans</u></b>	<b><u>Aggregate Outstanding Principal Balance</u></b>	<b><u>Percent of Pool by Aggregate Outstanding Principal Balance</u></b>
Alabama .....	64	\$ 723,297	0.63%
Alaska.....	10	89,717	0.08
Arizona.....	326	2,667,960	2.31
Arkansas.....	25	283,274	0.25
California .....	2,456	18,870,498	16.35
Colorado.....	133	1,240,290	1.07
Connecticut .....	161	1,525,966	1.32
Delaware .....	33	475,740	0.41
District of Columbia.....	48	634,292	0.55
Florida .....	574	7,080,122	6.13
Georgia.....	218	3,894,036	3.37
Hawaii .....	43	294,897	0.26
Idaho.....	34	416,689	0.36
Illinois .....	214	2,447,194	2.12
Indiana.....	116	1,140,925	0.99
Iowa.....	62	500,612	0.43
Kansas .....	156	633,750	0.55
Kentucky .....	81	853,555	0.74
Louisiana .....	58	1,047,811	0.91
Maine .....	48	765,099	0.66
Maryland .....	307	2,859,174	2.48
Massachusetts.....	407	3,075,438	2.66
Michigan .....	181	1,995,338	1.73
Minnesota.....	113	1,405,462	1.22
Mississippi.....	14	178,700	0.15
Missouri .....	146	1,175,623	1.02
Montana .....	32	391,495	0.34
Nebraska.....	30	235,127	0.20

<u>Geographic Location</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
Nevada .....	134	1,116,387	0.97
New Hampshire.....	50	468,071	0.41
New Jersey .....	368	5,588,268	4.84
New Mexico .....	65	574,581	0.50
New York.....	679	9,840,745	8.53
North Carolina.....	288	3,103,591	2.69
North Dakota.....	7	115,834	0.10
Ohio.....	362	5,172,740	4.48
Oklahoma .....	33	721,966	0.63
Oregon.....	191	1,499,276	1.30
Other.....	54	388,122	0.34
Pennsylvania .....	778	8,087,246	7.01
Puerto Rico.....	25	387,448	0.34
Rhode Island.....	40	410,600	0.36
South Carolina.....	150	1,761,550	1.53
South Dakota.....	14	149,125	0.13
Tennessee .....	80	969,447	0.84
Texas .....	1,691	10,032,471	8.69
Utah.....	44	381,356	0.33
Vermont .....	14	108,448	0.09
Virginia .....	305	3,230,145	2.80
Washington .....	182	2,096,568	1.82
West Virginia .....	33	614,553	0.53
Wisconsin.....	166	1,510,893	1.31
Wyoming.....	18	184,214	0.16
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Loan Type  
(As of the Statistical Cut-Off Date)**

<u>Loan Type</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
Consolidation - Unsubsidized .....	3,557	\$ 57,320,372	49.66%
Consolidation - Subsidized.....	3,269	44,748,380	38.77
Stafford - Subsidized .....	2,923	5,279,981	4.57
Stafford - Unsubsidized.....	1,729	4,141,135	3.59
Heal .....	277	3,692,454	3.20
PLUS/SLS .....	106	233,404	0.20
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Loan Type  
(As of the Statistical Cut-Off Date)**

<u>Loan Type</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
Unsubsidized .....	5,669	\$ 65,387,365	56.65%
Subsidized .....	<u>6,192</u>	<u>50,028,361</u>	<u>43.35</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Loan Type and Disbursement Date  
(As of the Statistical Cut-Off Date)**

<u>Loan Type</u>	<u>First Disbursement Date</u>				
	<u>Before 10/1/1992</u>	<u>10/1/1992 - 6/30/1995</u>	<u>7/1/1995 - 6/30/1998</u>	<u>7/1/1998 - 12/31/1999</u>	<u>1/1/2000 - 3/31/2006</u>
Stafford - School .....	-	-	-	0.012%	0.037%
Stafford - Deferment .....	-	-	0.09%	0.24%	1.474%
Stafford - Forbearance.....	-	0.001%	0.053%	0.212%	0.743%
Stafford - Repayment .....	0.001%	0.019%	0.309%	0.617%	4.265%
Stafford - Claims .....	-	-	-	0.004%	0.084%
Consolidation .....	-	-	-	0.024%	88.412%
Heal .....	0.018%	1.922%	0.214%	-	1.046%
SLS/PLUS .....	-	0.002%	-	0.053%	0.147%

**Distribution of the Student Loans by Date of Disbursement  
(As of the Statistical Cut-Off Date)**

<u>Date of Disbursement</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal Balance</u>
Before October 1, 1993 .....	3	\$ 3,699	0.00%
October 1, 1993 through December 31, 1999 ...	851	1,887,468	1.64
January 1, 2000 through June 30, 2006.....	10,730	109,832,104	95.16
Heal Loans .....	<u>277</u>	<u>3,692,454</u>	<u>3.20</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

FFELP loans disbursed before 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. Heal loans are 98% guaranteed by the Department of Health and Human Services. See "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" and "DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM" in this offering memorandum.



**Distribution of the Student Loans by Number of Days Delinquent  
(As of the Statistical Cut-Off Date)**

<u>Days Delinquent</u>	<u>Number of Loans</u>	<u>Percent of Pool by</u>	
		<u>Aggregate Outstanding Principal Balance</u>	<u>Aggregate Outstanding Principal Balance</u>
0 to 30 .....	10,673	\$105,147,309	91.10%
31 to 60 .....	366	3,184,355	2.76
61 to 90 .....	255	1,957,311	1.70
91 to 120 .....	96	1,332,675	1.15
121 to 150 .....	82	940,810	0.82
151 to 180 .....	86	807,381	0.70
181 to 210 .....	50	322,953	0.28
211 to 240 .....	90	486,001	0.42
Over 240 .....	<u>163</u>	<u>1,236,931</u>	<u>1.07</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution of the Student Loans by Guarantee Agency  
(As of the Statistical Cut-Off Date)**

<u>Guarantee Agency</u>	<u>Number of Loans</u>	<u>Percent of Pool by</u>	
		<u>Aggregate Outstanding Principal Balance</u>	<u>Aggregate Outstanding Principal Balance</u>
American Student Assistance (ASA) .....	581	\$4,657,189	4.04%
California Student Aid Commission (CSAC) ..	1,228	2,625,684	2.27
College Access Network .....	1	3,053	0.00*
Educational Credit Management Corporation (ECMC) .....	244	1,239,205	1.07
Finance Authority of Maine .....	9	40,551	0.04
Great Lakes Higher Education Guaranty Corporation .....	48	820,926	0.71
Illinois Student Assistance Commission .....	6	3,889	0.00*
National Student Loan Program (NSLP) .....	2	1,398	0.00*
New York State Higher Education Services Corporation .....	854	12,709,491	11.01
Northwest Education Loan Association (NELA) .....	27	104,890	0.09
Florida Office of Student Financial Assistance (OFSA) .....	7	14,124	0.01
Pennsylvania Higher Education Assistance Agency (PHEAA) .....	3,166	41,759,366	36.18
Louisiana Student Financial Assistance Commission (LSFAC) .....	3	8,040	0.01
Texas Guaranteed Student Loan Corporation (TGSLC) .....	2,677	17,660,441	15.30
United Student Aid Funds, Inc. (USAF) .....	2,731	30,075,025	26.06
HEAL loans .....	<u>277</u>	<u>3,692,454</u>	<u>3.20</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

(\*) Less than 0.005%

**Distribution of the Student Loans by Subservicer  
(As of the Statistical Cut-Off Date)**

<u>Subservicer</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal</u>
Xerox Education Services, Inc. (f/k/a ACS Education Services, Inc.) .....	6,768	\$ 53,116,872	46.02%
Great Lakes Educational Loan Services, Inc. ....	36	690,568	0.60
Pennsylvania Higher Education Assistance Agency .....	2,510	31,876,978	27.62
Sallie Mae, Inc. ....	<u>2,547</u>	<u>29,731,308</u>	<u>25.76</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**Distribution by School Type  
(As of the Statistical Cut-Off Date)**

<u>School Type</u>	<u>Number of Loans</u>	<u>Aggregate Outstanding Principal Balance</u>	<u>Percent of Pool by Aggregate Outstanding Principal</u>
Consolidation Loans.....	6,826	\$102,068,752	88.44%
4 Year Institution/Graduate .....	3,641	10,644,604	9.22
2 Year Institution.....	1,093	2,273,299	1.97
Proprietary.....	297	416,454	0.36
Other.....	<u>4</u>	<u>12,617</u>	<u>0.01</u>
Total .....	<u>11,861</u>	<u>\$115,415,726</u>	<u>100.00%</u>

**REGARDING THE STUDENT LOANS**

**Description of each Borrower Benefit Program Applicable to the Student Loans**

The student loans consist of student loans eligible for certain borrower incentive programs applicable to the student loans. Under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% upon entering repayment, or after timely receipt (i.e., not less than 15 days delinquent) of the initial 30, 36, or 48, payments from the borrower or upon entering repayment, depending on when the student loan was made and the principal amount of the student loan. This interest rate reduction is effective for as long as the borrower continues to make timely payments. Some borrowers who authorize automatic payment of their student loans from a checking or savings account receive an interest rate that is 0.25% less than the statutory rate. In addition, some borrowers may be eligible for a reduction in the principal amount of their loan of up to 3.3% upon entering repayment or after the timely receipt (i.e., not less than 15 days delinquent) of 33 or 36 payments from the borrower.

**Description of Subservicers**

The master servicer has entered into separate subservicing agreements with several separate loan servicing entities for the performance of certain servicing duties for student loans held under the indenture.

Under its contract with the master servicer, each subservicer will generally provide services for the student loans it is servicing from the time of acquisition through the maturity of such student loans. The subservicer will prepare the bill for interest subsidy payments, if applicable, from the Secretary of Education, monitor the enrollment of all borrowers, generate disclosure statements and coupon books, receive and post payments, perform due diligence on delinquent loans as required by federal regulations (including specific collection procedures), provide management and delinquency aging reports, request guarantor assistance when required on accounts, provide a historical report of due diligence for claim filing. Each subservicer will also provide data inquiry and updating capabilities in addition to any training that might become necessary as a result of processing improvements or enhancements to the service level. Each subservicer will also perform such additional functions required to preserve the guarantee of the guarantee agencies, the insurance of the Secretary of Education on the student loans or the insurance provided by the Secretary of Health and

Human Services. See “*RISK FACTORS—A termination of a subservicing agreement or a failure to renew a subservicing agreement could cause disruptions in servicing.*”

All of the student loans will initially be serviced by one of the following subservicers: Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency, Sallie Mae, Inc. and Xerox Education Services, Inc. (f/k/a ACS Education Services, Inc.) See “*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Subservicer (As of the Statistical Cut-Off Date)*” for a break-down of the percent of student loans serviced by each subservicer as of the statistical cut-off date.

See Appendix B to this offering memorandum for information concerning each of these subservicers.

After the closing date, student loans held under the indenture will be permitted to be subserviced by Brazos Loan Servicing, Inc. The issuer expects that student loans that have an aggregate principal balance equal to no greater than 10% of the Initial Pool Balance will be converted to Brazos Loan Servicing, Inc. for subservicing after the closing date. Under the terms of the indenture, student loans may not be converted to Brazos Loan Servicing, Inc. for subservicing if, after such conversion, the aggregate principal amount of student loans subserviced by Brazos Loan Servicing, Inc. would exceed 10% of the Initial Pool Balance unless a Rating Confirmation is obtained. See Appendix B to this offering memorandum for information concerning Brazos Loan Servicing, Inc.

Pursuant to a back-up subservicing agreement, Nelnet Servicing, LLC will act as the back-up subservicer with respect to any student loans subserviced by Brazos Loan Servicing, Inc. The indenture trustee will be a third party beneficiary of the back-up subservicing agreement.

Under the subservicing agreement with Brazos Loan Servicing, Inc., any one of the following constitutes a “BLS termination event”: (i) any determination by the Department of Education of the loss of Brazos Loan Servicing, Inc.’s eligibility as a third-party servicer; (ii) the occurrence of an event of bankruptcy with respect to Brazos Loan Servicing, Inc. or (iii) any material default in the performance of any material covenant, agreement or condition on the part of Brazos Loan Servicing, Inc. under such agreement. Examples of material defaults in performance under part (iii) above would include, but would not be limited to, the failure to: (a) deliver proper servicing reports; (b) service the student loans in accordance with the Higher Education Act and the implementing regulations; (c) transfer identifiable funds relating to the student loans to the indenture trustee within two business days; or (d) pay a required repurchase obligation to the issuer if improper subservicing were to result in a student loan losing its guarantee.

If a BLS termination event occurs and such event remains uncured after notice thereof and the expiration of any applicable cure period, then at the written direction of the issuer and the indenture trustee, the master servicer will provide notice to the back-up subservicer of the determination that all of the student loans then subserviced by Brazos Loan Servicing, Inc. will instead be subserviced by the back-up subservicer under the back-up subservicing agreement. Within one-hundred fifty (150) days of such notice, Brazos Loan Servicing, Inc. is required to transmit all of the necessary student loan files and records to the back-up subservicer to enable the back-up subservicer to service the student loans. Prior to expiration, the back-up subservicing agreement may be terminated if: (i) the back-up subservicer fails to remain eligible to service FFELP loans under the Higher Education Act or other applicable law, (ii) the back-up subservicer discontinues its business or generally does not pay its debts as such debts become due, (iii) the back-up subservicer determines that it is no longer able to perform its obligations as back-up subservicer or (iv) Brazos Loan Servicing, Inc. discontinues utilizing a reasonably compatible servicing system.

The back-up subservicing agreement is for an initial term of three (3) years. After the initial term, the back-up subservicing agreement is subject to automatic annual renewals unless a party elects to terminate the agreement by notice provided at least 90 days prior to the next scheduled expiration date. To the extent that the back-up subservicing agreement expires or is otherwise terminated pursuant to its terms, the issuer will covenant in the indenture to direct the master servicer to use commercially reasonable efforts to enter into a similar back-up subservicing agreement with respect to any student loans subserviced by Brazos Loan Servicing, Inc. with an entity whose regular business includes the servicing of student loans. In addition, if any Class A notes are outstanding, any such successor back-up subservicer at the time of such appointment is required to be an entity that (i) is otherwise eligible to serve as a subservicer under the terms of the indenture, (ii) ranks among the top five servicers of student loans by outstanding principal amount of U.S. student loans serviced based upon publicly available information at that time, or (iii) has been identified by the issuer in a written notice to each Class A noteholder as the proposed successor back-up subservicer at the address shown on the registration books of the indenture trustee and, within 30 days following the mailing of such written notice, the issuer has not received from the Class A noteholders of not less than one-third of the principal amount of the Class A notes then outstanding a signed writing objecting to such proposed successor back-up subservicer. The fees and expenses set forth in any subsequent back-up subservicing agreement are not permitted to exceed the fees and expenses set forth in the initial back-up subservicing agreement with Nelnet Servicing, LLC. Under the indenture, the issuer will also agree to provide prompt notice to the noteholders of any expiration or termination of the back-up subservicing agreement and the identity of any successor back-up subservicer.

Under the back-up subservicing agreement, the master servicer is required to pay from its general funds on behalf of the issuer the annual maintenance fee of the back-up subservicer, if any, and any such amounts also may be paid as Ancillary Subservicing Fees under the indenture. If the master servicer fails to make such payment, the indenture trustee will reduce the amount of the Administration Fee paid to the master servicer under the indenture by an amount equal to the annual maintenance fee that is due and payable and pay that fee directly to the back-up subservicer on behalf of the issuer.

Nelnet Servicing, LLC began its education loan servicing operations on January 1, 1978, and provides student loan servicing that includes application processing, conversion loan adds, 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 Department of Education. Nelnet has offices located in, among other cities, Aurora, Colorado, and Lincoln, Nebraska. As of March 31, 2012, the company serviced more than \$82 billion of commercially owned and government-owned student loans.

After the closing date, student loans held under the indenture are also permitted to be subserviced by any additional subservicers provided that (i) the indenture trustee has received a Rating Confirmation with respect to using any such additional subservicers and (ii) if any Class A notes are outstanding (A) the additional subservicer at the time of such addition ranks among the top five servicers of student loans by outstanding principal amount of U.S. student loans serviced based upon publicly available information at that time, or (B) the issuer sends written notice of the identity of the proposed additional subservicer to each Class A noteholder at the address shown on the registration books of the indenture trustee and, within 30 days following the mailing of such written notice, the issuer does not receive from the Class A noteholders of not less than one-third of the principal amount of the Class A notes then outstanding a signed writing objecting to such proposed additional subservicer.

### **Custodians**

The issuer and the indenture trustee have entered into a custodian agreement with each of the subservicers. Other entities also may enter into similar custodian agreements, but the issuer expects that each subservicer will serve as the custodian for the student loans it services.

Pursuant to the custodian agreements the custodians will have physical possession of the promissory notes and certain related documents evidencing the respective student loans and will hold such student loan notes and documents as bailee and custodian for the indenture trustee. It is anticipated that all student loan notes will be held by the custodians and that the indenture trustee will not have physical possession of any student loans notes or the related documents. Among other specific responsibilities set forth in the custodian agreements the custodians will maintain the student loan notes and related documents and will label such notes and documents in a manner which clearly discloses the indenture trustee's security interest. The indenture trustee will have no responsibility for loss of or damage to student loan notes or related documents held by a custodian or for any action or omission of any custodian.

Although the terms of the custodian agreements may vary, it is expected that the custodian agreements will require each custodian to certify to the indenture trustee that it has possession of the student loans pledged under the indenture. It is also expected that each custodian will keep the student loan notes and related documents in fire-retardant facilities under its exclusive control. The issuer is expected to be able to remove any custodian, upon written consent of the indenture trustee, and each custodian is expected to be able to resign upon giving prior written notice to the other parties. Any successor custodian would be appointed by the issuer with approval of the indenture trustee.

### **Description of Guarantee Agencies for the FFELP Loans**

Each FFELP loan will be guaranteed by one of the following guarantee agencies: American Student Assistance (ASA), California Student Aid Commission (CSAC), College Access Network, Educational Credit Management Corporation (ECMC), Finance Authority of Maine, Florida Office of Student Financial Assistance (OFSA), Great Lakes Higher Education Guaranty Corporation, Illinois Student Assistance Commission, Louisiana Student Financial Assistance Commission (LSFAC), National Student Loan Program (NSLP), New York State Higher Education Services Corporation, Northwest Education Loan Association (NELA), Pennsylvania Higher Education Assistance Agency (PHEAA), Texas Guaranteed Student Loan Corporation (TGSLC), or United Student Aid Funds, Inc. (USAF). See "*DESCRIPTION OF THE GUARANTEE AGENCIES*" in this offering memorandum for greater detail relating to guarantee agencies under the Federal Family Education Loan Program.

Each of Pennsylvania Higher Education Assistance Agency, United Student Aid Funds, Texas Guaranteed Student Loan Corporation and New York State Higher Education Services Corporation will have guaranteed greater than ten percent (10%) of all student loans held in the trust estate under the indenture.

See “*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Guarantee Agency (As of the Statistical Cut-Off Date)*” for a break-down of the percent of student loans guaranteed by each guarantee agency as of the statistical cut-off date. These guarantee agencies are collectively referred to in this offering memorandum as the “significant guarantors.”

See Appendix C to this offering memorandum for information concerning each significant guarantor.

## THE ISSUER

### General

The issuer is a nonprofit corporation organized in 2005 under the Texas Nonprofit Corporation Law and is exempt from payment of federal income taxation as a “501(c)(3)” non-profit corporation. The issuer is located at 2600 Washington Avenue, P.O. Box 1308, Waco, Texas 76703, Telephone (254) 753-0915. The master servicer conducts and operates the business affairs of the issuer. See “*THE MASTER SERVICER*” in this offering memorandum.

The issuer is authorized to (i) provide funds for the acquisition of student loans which are either insured or guaranteed pursuant to the Higher Education Act or the Public Health Service Act and (ii) provide procedures for the servicing of such student loans in accordance with the Higher Education Act and the Public Health Service Act, as applicable.

The issuer’s Articles of Incorporation provide that after payments of expenses, debt service and the creation of reserves for the same, all revenue shall be utilized for the purchase of student loans, or, upon dissolution of the issuer, all funds and property of the issuer are required to be transferred to another organization which is exempt from federal income taxation under the Internal Revenue Code of 1986, as amended, and which is engaged in activities substantially similar to the activities of the issuer, or paid to the Federal Government. The issuer’s activities are governed by the Texas Nonprofit Corporation Law.

The notes have been authorized by the issuer under a resolution duly adopted by the Board of Directors of the issuer, and a resolution duly adopted by the Executive Committee of the issuer, and are issued by the issuer under the indenture and pursuant to the laws of the State of Texas, particularly the Texas Nonprofit Corporation Law. The notes are not being issued pursuant to the Texas Education Code. The Attorney General of Texas has not approved, and is not required to approve, the notes.

The issuer is an eligible not for profit holder under the Higher Education Act. See “*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments*” in this offering memorandum.

### Board of Directors

The issuer is governed by a Board of Directors currently consisting of nine directors. All Directors are appointed by a majority vote of the Board of Directors. Directors serve two-year staggered terms of office. The members of the Board of Directors serve without compensation, except for the reimbursement of expenses incurred in connection with the business of the issuer.

<u>Name</u>	<u>Principal Occupation</u>	<u>Term Expires<sup>(1)</sup></u>
Bob Chambers	Chairman & Chief Executive Officer, Automatic Chef Company (retired); Waco, Texas	January, 2014
Tom Chase	President, Insurors of Texas, Waco, Texas	January, 2015
Claude Ervin	Chairman, Waco Scottish Rite Bodies, Waco, Texas	January, 2015
Peter Kultgen, Vice Chairman	President, Bird-Kultgen Ford, Waco, Texas	January, 2014
Wilton Lanning	Owner/Operator, Padgitts, Inc. (retired); Waco, Texas	January, 2014
Dr. Terry Maness	Dean, Hankamer School of Business, Baylor University <sup>(2)</sup> , Waco, Texas	January, 2014
Dr. Dennis Michaelis	President Emeritus, McLennan Community College, Waco, Texas	January, 2014
Mr. Clement Milam	Development Director, Heart of Texas Community Health Center (Family Health Center), Waco, Texas	January, 2015
Mrs. Joyce Packard, Chairman	High School Counselor, Waco Public Schools; Dean of Women and Supervisor of Student Teachers, Baylor University (retired); Waco, Texas	January, 2014

(1) In accordance with the Bylaws of the issuer, all Directors shall serve until such time as they are reappointed or replaced by the Board of Directors.

(2) Eligible Institution.

### **The Student Loans**

With respect to the student loans held under the indenture, the master servicer will be responsible for the servicing, collecting, accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guarantee agency, the insurance of the Secretary of the Department of Education and the insurance provided by the Secretary of Health and Human Services. The master servicer will perform most of its servicing obligations through separate subservicing agreements with each of the subservicers. As a result, most servicing duties relating to student loans held under the indenture will actually be performed by the subservicers.

### **Student Loan Asset-Backed Notes**

The Class A notes issued pursuant to this offering memorandum and the subordinate Class B notes described herein will be the only student loan asset-backed notes issued by the issuer under the indenture. No other student loan asset-backed notes are permitted to be issued under the indenture. The issuer is permitted to issue additional student loan asset-backed notes secured under separate and distinct indentures of trust. See “*SUMMARY—Capitalization of Notes Under the Indenture*” in this offering memorandum for a description of the capitalization of the trust estate created under the indenture as of the closing date, after giving effect to the issuance of the Class A notes and the subordinate Class B Notes.

### **THE MASTER SERVICER**

The master servicer is a private non-profit corporation organized on September 18, 1980, under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, to provide the issuer and related entities with student loan billing and servicing and to provide administrative support services to the issuer. The master servicer conducts and operates the business affairs of the issuer. See “*THE ISSUER*” in this offering memorandum.

The master servicer is headquartered in Waco, Texas and is governed by a ten-member board of directors. The members of the Board of Directors serve without compensation, except for the payment of expenses in connection with the business of the master servicer. Some members of the present board of directors of the master servicer are also members of the Board of Directors of the issuer.

The day-to-day affairs of the master servicer are managed by its President and Chief Executive Officer, Murray Watson, Jr., who also serves as General Counsel to the master servicer and all other entities managed by the master servicer. Mr. Watson receives a salary from the master servicer for his duties as the President and Chief Executive Officer of the master servicer. He has held such positions or the position of Secretary/Treasurer since the inception of the master servicer in 1980. The master servicer has made no significant policy changes in the past three years.

As of June 30, 2012, the total number of student loan accounts serviced by the master servicer was approximately 1,167,769 aggregating approximately \$10,672,280,734 in principal amount. All of such student loans are serviced by the master servicer for the issuer or for separate corporations managed by the master servicer and for several local banks who have committed to sell certain student loans to the issuer or one of the other corporations managed by the master servicer. The master servicer performs most of its servicing obligations through separate subservicing agreements with certain subservicers. The follow is a tabulation of all student loans serviced by the master servicer for the prior five years.

<b>Calendar Year (or Period) <u>Ending</u></b>	<b>Number of <u>Loans</u></b>	<b>Principal <u>Amount</u></b>
December 31, 2007	2,005,653	\$15,607,861,899
December 31, 2008	1,727,604	\$14,655,340,375
December 31, 2009	1,577,709	\$13,694,012,979
December 31, 2010	1,396,827	\$12,354,183,570
December 31, 2011	1,254,279	\$ 11,332,199,937

As of June 30, 2012, the master servicer had approximately 65 full time employees and 3 part time employees working at facilities in Austin and Waco, Texas.

The master servicer has entered into a master servicing agreement with the issuer pursuant to which the master servicer will act as the agent for the issuer in connection with the administration, collection and servicing of student loans to be held under the indenture. Pursuant to the master servicing agreement, the duties to be performed by the master servicer include preparing and providing certain reports, orders and other documents to the issuer and/or the indenture trustee relating to student loans to be held under the indenture, acting as liaison for the issuer with college and university financial aid officers, lenders, students, parents and others regarding the issuer's student loan program and periodically reviewing investment practices of the issuer. Generally, payments received from borrowers, the Department of Education, the Secretary of Health and Human Services and investment providers are transferred directly to the indenture trustee and are not held or commingled with the funds of the master servicer. The master servicer also is authorized to enter into subservicing agreements with other entities in order to carry out the servicing, collecting, accounting and reporting obligations required by the Higher Education Act, the guarantee agencies, the Public health Service Act and the issuer. See "REGARDING THE STUDENT LOANS—Description of the Subsersicers" and "REGARDING THE STUDENT LOANS—Description of the Custodians" in this offering memorandum. Generally, the issuer will indemnify the master servicer for any losses it incurs for acts it performs under the master servicing agreement except for any loss, liability or expense arising out of or relating to the master servicer's willful misconduct or negligence. Generally, the master servicer will indemnify and hold the issuer harmless from all loss, liability and expense arising out of or relating to the master servicer's willful misconduct or negligence with regard to performance of services under the master servicing agreement. The master servicer has only limited resources from which it could satisfy this obligation.

Upon the discovery of a breach of a covenant contained in the master servicing agreement that has a materially adverse effect on the student loans, the master servicer will be obligated to use reasonable efforts to purchase or substitute or cause the purchase or substitution of the adversely affected student loan by the applicable subservicer unless the breach is cured within a cure period. In all cases, with respect to any breach by a subservicer that affects a student loan, the master servicer's liability under the master servicing agreement will be limited to payments or substitutions received from the applicable subservicer.

Under the master servicing agreement, if there is any master servicer default that occurs and is continuing relating to (i) the failure of the master servicer to deliver any payment with respect to the student loans received by master servicer that remains unremedied after notice or discovery and the passage of the cure period, (ii) a bankruptcy of the master servicer that would materially and adversely affect the rights of holders of notes, (iii) the failure by the master servicer to maintain adequate subservicing arrangements with respect to the student loans if such failure remains unremedied after discovery of or notice and the passage of the cure period and such failure would materially and adversely affect the rights of holders of notes, or (iv) any failure by the master servicer to process required information to provide a breakout of interest subsidy payments and special allowance payments with respect to the financed student loans under the indenture after discovery of or notice of such failure and the passage of the cure period and such failure would materially and adversely affect the rights of holders of notes, then the issuer and the indenture trustee will be

required to terminate all the rights and obligations of the master servicer under the master servicing agreement (other than right of the master servicer with respect to indemnification) and appoint a new master servicer.

In addition, under the master servicing agreement, if there is any other master servicer default that occurs and is continuing relating to a breach of a representation or warranty of the master servicer or a failure by the master servicer to duly observe or to perform in any material respect any agreement set forth in the master servicing agreement, which breach or failure will materially and adversely affect the rights of holders of notes and continues unremedied for a period of sixty (60) days after the date of discovery or notice of such failure, then the issuer and the indenture trustee, or the holders of notes evidencing not less than a two thirds of the Class A notes then outstanding, by notice then given in writing to the master servicer, may terminate all the rights and obligations (other than right of the master servicer with respect to indemnification) of the master servicer under the master servicing agreement and appoint a new master servicer.

## **Recent Developments**

On March 30, 2010, President Obama signed into law H.R. 4872 – the Health Care and Education Reconciliation Act of 2010 (HCERA). HCERA provides that after June 30, 2010, no new student loans will be made under the Federal Family Education Loan Program. Beginning July 1, 2010, all subsidized and unsubsidized Stafford loans, PLUS loans, and Consolidation loans can only be made under the government’s Federal Direct Loan Program (FDLP). The elimination of the Federal Family Education Loan Program could have a material adverse impact on the master servicer, the issuer, the subservicers and the guarantee agencies. We cannot predict the impact that HCERA will ultimately have on current participants in FFELP. See “*RISK FACTORS—Changes in law may adversely affect participants in the Federal Family Education Loan Program*” in this offering memorandum. 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. Eligible borrowers with both FFELP loans and eligible FDLP loans are permitted under this program to have their existing FFELP loans reissued under the FDLP during the period from January 1, 2012 through June 30, 2012, and such borrowers will receive up to a 0.5% interest rate reduction on the reissued FFELP loan. The terms and conditions of borrowers’ existing student loan would continue. Holders of such FFELP loans, such as the issuer, would be paid 100% of the outstanding principal and interest balance on any FFELP loans so reissued. Applications for this program may be processed after the June 30, 2012 deadline. We cannot predict which borrowers may qualify or decide to participate in this program. See “*RISK FACTORS—You will bear prepayment and extension risk due to actions taken by individual borrowers and other variables beyond our control*” in this offering memorandum.

Standard & Poor’s Ratings Services downgraded the United States to “AA+” on August 5, 2012. Fitch Ratings has confirmed its “AAA” rating on the United States. However, 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—You may have difficulty selling your Class A notes*” and “*—Borrowers under Student Loans are Subject to a Variety of Factors that may Adversely Affect their Repayment Ability and our Ability to Pay the Holders of the Notes.*”

On December 23, 2011, the President of the United States signed the Consolidated Appropriations Act of 2012 into law. This law includes changes that permit FFELP lenders or beneficial holders to change the index on which the special allowance payments are calculated for FFELP loans first disbursed on or after January 1, 2000. The law allows owners of FFELP loans to elect to change the applicable index from the three-month commercial paper rate to the one-month LIBOR index. Such elections were required to be made by April 1, 2012. The issuer has made this election with respect to the applicable FFELP loans that will be pledged under the indenture.

## **DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM**

The Higher Education Act provided for several different types of educational loans (collectively, “Federal Family Education Loans” or “FFELP loans” and, the program with respect thereto, the “Federal Family Education Loan Program”). Under these programs, state agencies or private nonprofit corporations administering student loan insurance programs (“guarantee agencies” or “guarantors”) are reimbursed for losses sustained in the operation of their programs, 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. Both the Higher Education Act and the related regulations have been the subject of extensive amendments in recent years. There can be no assurance that the Higher Education Act or other relevant federal or state laws and regulations will not be amended or modified in the future in a manner that will adversely affect the student loans authorized under the Federal Family Education Loan Program. See “*RISK FACTORS—Changes in law may adversely affect participants in the Federal Family Education Loan Program*” in this offering memorandum.



On March 30, 2010, President Obama signed into law H.R. 4872 – the Health Care and Education Reconciliation Act of 2010 (HCERA). ***EFFECTIVE JULY 1, 2010, THE HCERA ELIMINATED THE FEDERAL FAMILY EDUCATION LOAN PROGRAM. HCERA PROVIDES THAT AFTER JUNE 30, 2010, NO NEW STUDENT LOANS WILL BE MADE UNDER THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.*** Beginning July 1, 2010, all subsidized and unsubsidized Stafford loans, PLUS loans, and Consolidation loans can only be made under the government’s Federal Direct Loan Program (FDLP). The terms of existing FFELP loans are not materially affected by the HCERA. 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. Eligible borrowers with both FFELP loans and eligible FDLP loans are permitted under this program to have their existing FFELP loans reissued under the FDLP during the period from January 1, 2012 through June 30, 2012, and such borrowers will receive up to a 0.5% interest rate reduction on the reissued FFELP loan. The terms and conditions of borrowers’ existing student loan would continue. Holders of such FFELP loans, such as the issuer, would be paid 100% of the outstanding principal and interest balance on any FFELP loans so reissued. Applications for this program may be processed after the June 30, 2012 deadline. We cannot predict which borrowers may qualify or decide to participate in this program. See “*RISK FACTORS—You will bear prepayment and extension risk due to actions taken by individual borrowers and other variables beyond our control.*” On December 23, 2011, the President of the United States signed the Consolidated Appropriations Act of 2012 into law. This law includes changes that permit FFELP lenders or beneficial holders to change the index on which the special allowance payments are calculated for FFELP loans first disbursed on or after January 1, 2000. The law allows owners of FFELP loans to elect to change the applicable index from the three-month commercial paper rate to the one-month LIBOR index. Such elections were required to be made by April 1, 2012.

Generally, a student was eligible for loans made under the Federal Family Education Loan Program only if he or she:

- was a United States citizen, national or permanent resident;
- had been accepted for enrollment or was enrolled in good standing at an eligible institution of higher education;
- was carrying or planning to carry at least one-half the normal full-time workload for the course of study the student was pursuing as determined by the institution;
- had agreed to promptly notify the holder of the loan of any address change; and
- met the applicable “needs” requirements.

Eligible institutions include higher educational institutions and vocational schools that comply with specific federal regulations. Each loan is to be evidenced by an unsecured note.

The Higher Education Act also established maximum interest rates for each of the various types of loans. Those rates vary not only among loan types, but also within loan types depending upon when the loan was made or when the borrower first obtained a loan under the Federal Family Education Loan Program. The Higher Education Act allows lesser rates of interest to be charged.

### **Types of Loans**

Four types of loans were available under the Federal Family Education Loan Program:

- Subsidized Federal Stafford Loans;
- Unsubsidized Federal Stafford Loans;
- Federal PLUS Loans; and
- Federal Consolidation Loans.

These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies and special allowance payments. Some of those loan types have had other names in the past. References to those various loan types include, where appropriate, their predecessors.

The primary loan under the Federal Family Education Loan Program was the Subsidized Federal Stafford Loan. Students who are not eligible for Subsidized Federal Stafford Loans based on their economic circumstances were able to obtain Unsubsidized Federal Stafford Loans. Parents of students and certain graduate and professional students were able to obtain Federal PLUS Loans.

Federal Consolidation Loans were available to borrowers with existing loans made under the Federal Family Education Loan Program and other federal education loan programs to consolidate repayment of the borrower's existing loans. Prior to July 1, 1994, the Federal Family Education Loan Program also offered Federal Supplemental Loans for Students ("Federal SLS Loans") to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students, to supplement their Subsidized Federal Stafford Loans.

**Subsidized Federal Stafford Loans**

Subsidized Federal Stafford Loans are eligible for reinsurance under the Higher Education Act if the eligible student to whom the loan is made had been accepted or enrolled in good standing at an eligible institution of higher education or vocational school and was carrying at least one-half the normal full-time workload at that institution when the loan was made. Subsidized Federal Stafford Loans had limits as to the maximum amount that may have been borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study.

Both aggregate limitations exclude loans made under the Federal SLS and Federal PLUS Programs. The Secretary of Education had discretion to raise those limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Subsidized Federal Stafford Loans were generally made only to student borrowers who meet the needs tests provided in the Higher Education Act. Provisions addressing the implementation of needs analysis and the relationship between unmet need for financing and the availability of federally subsidized student loans (both FFELP and FDLP) have been the subject of frequent and extensive amendment in recent years. Further amendment to such provisions may materially affect the availability of subsidized FDLP funding to borrowers.

Subsidized Federal Stafford Loans made to new borrowers bear interest for any period of enrollment beginning before July 1, 1994 as indicated in the following table (the term "T-Bill Rate" means the bond equivalent rate of 91-day Treasury bills auctioned at the final auction prior to June 1 of each year):

<u>Date of Beginning of Period of Enrollment</u>	<u>Interest Rate</u>
On or after January 1, 1981 through September 12, 1983	9% per annum
On or after September 13, 1983 through June 30, 1988	8% per annum
On or after July 1, 1988 through September 30, 1992	T-Bill Rate plus 3.25% per annum <sup>(1)</sup>
On or after October 1, 1992 through June 30, 1994	T-Bill Rate plus 3.10% per annum <sup>(2)</sup>

<sup>(1)</sup> These loans originally bore interest at the rate of 8% per annum from disbursement through four years after repayment begins and 10% per annum thereafter. However, the Higher Education Technical Amendments of 1993 required that loans with an interest rate of 10% be converted to the current variable rate by January 1, 1995. The Higher Education Technical Amendments of 1993 also required that loans made to borrowers with outstanding balances on or after July 23, 1992 bearing interest at a rate greater than the T-Bill Rate plus 3.10% be converted to the T-Bill Rate plus 3.10%. The maximum interest rate on these loans is equal to the fixed interest rate applicable prior to the conversion.

<sup>(2)</sup> Maximum rate of 9% per annum.

For loans first disbursed prior to July 1, 1994, Subsidized Federal Stafford Loans made to borrowers who have outstanding balances on any FFELP loans bear interest at the same rate as their outstanding loans. Subsidized Federal Stafford Loans for borrowers with outstanding loans for periods of enrollment that began prior to January 1, 1981 who borrow for periods of enrollment beginning on or after January 1, 1981 bear interest at a rate of 7% per annum. Subsidized Federal Stafford Loans for borrowers with outstanding FFELP loans who borrow on or after July 23, 1992 bear interest at a rate equal to the 91-day T-Bill Rate plus 3.10% per annum, with a maximum rate equal to the rate on the borrower's fixed rate loans.

Subsidized Federal Stafford Loans first disbursed to all borrowers on or after July 1, 1994 bear interest as indicated in the following table:

<u>First Disbursement Date</u>	<u>Interest Rate</u>	<u>In-school, Grace and Deferment Period Rate</u>	<u>Maximum Interest Rate</u>
On or after July 1, 1994 through June 30, 1995	T-Bill Rate plus 3.10% per annum	N/A	8.25% per annum
On or after July 1, 1995 through June 30, 1998	T-Bill Rate plus 3.10% per annum	T-Bill Rate plus 2.5% per annum	8.25% per annum
On or after July 1, 1998 through June 30, 2006	T-Bill Rate plus 2.3% per annum	T-Bill Rate plus 1.7% per annum	8.25% per annum
On or after July 1, 2006	6.8%	N/A	N/A
On or after July 1, 2008	6.0%	N/A	N/A
On or after July 1, 2009	5.6%	N/A	N/A

### **Unsubsidized Federal Stafford Loans**

The Unsubsidized Federal Stafford Loan Program was created by Congress in 1992 for students who do not qualify for Subsidized Federal Stafford Loans due to parental and/or student income and assets in excess of permitted amounts. Those students were entitled to borrow the difference between the Stafford Loan maximum and their Subsidized Federal Stafford Loan eligibility through the Unsubsidized Federal Stafford Loan program. The general requirements for Unsubsidized Federal Stafford Loans are essentially the same as those for Subsidized Federal Stafford Loans, except that Unsubsidized Federal Stafford Loans are not subject to the interest rate reductions applicable to Subsidized Federal Stafford Loans beginning July 1, 2008. The interest rate and the special allowance payment provisions of the Unsubsidized Federal Stafford Loans are the same as the Subsidized Federal Stafford Loans. However, the terms of the Unsubsidized Federal Stafford Loans differ materially from Subsidized Federal Stafford Loans in that the federal government will not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to either pay interest from the time the loan is disbursed or capitalize the interest until repayment begins. Unsubsidized Federal Stafford Loans were not available before October 1, 1992. A student meeting the general eligibility requirements for a loan under the Federal Family Education Loan Program was eligible for an Unsubsidized Federal Stafford Loan without regard to need.

### **Federal PLUS Loans**

*General.* Federal PLUS Loans were made only to borrowers who are parents and, under certain circumstances, spouses of remarried parents, of dependent undergraduate students, except that the Higher Education Reconciliation Act of 2005 provided that graduate and professional students may also borrow Federal PLUS Loans on and after July 1, 2006. For Federal PLUS Loans made on or after July 1, 1993, the borrower must not have had an adverse credit history as determined pursuant to criteria established by the Department of Education, provided, however, that an eligible lender may, during the period beginning January 1, 2007, and ending on December 31, 2009, determine extenuating circumstances exist under those criteria, thereby allowing mortgage payments or medical bills payments that are less than 180 days delinquent to not adversely affect the parent borrower's credit under certain circumstances. The basic provisions applicable to Federal PLUS Loans are similar to those of Subsidized Federal Stafford Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal reinsurance on the loans.

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

*Interest Rates For Federal PLUS Loans.* The applicable interest rate depends upon the date of issuance of the loan and the period of enrollment for which the loan is to apply. The applicable interest rate on a Federal PLUS Loan (the term "1-Year Index" means the weekly average 1-year constant maturity Treasury, as published by the Board of Governors of the Federal Reserve System, for the last calendar week before the preceding June 26):

<u>Date Made</u>	<u>Interest Rate</u>	<u>Maximum Interest Rate</u>
Before October 1, 1981	9%	N/A
On or after October 1, 1981 through October 31, 1982	14%	N/A
On or after November 1, 1982 through June 30, 1987	12%	N/A
On or after July 1, 1987 through September 30, 1992	1-Year Index plus 3.25%	12%
On or after October 1, 1992 through June 30, 1994	1-Year Index plus 3.10%	10%
On or after July 1, 1994 through June 30, 1998	1-Year Index plus 3.10%	9%
On or after July 1, 1998 through June 30, 2006	T-Bill Rate plus 3.10%	9%
On or after July 1, 2006 through June 30, 2010	8.5%	N/A

*Auction of Parent Federal PLUS Loans.* Beginning July 1, 2009, the Secretary of Education will conduct auctions in each state where lenders will compete for the right to make Federal PLUS Loans to parents. Pursuant to the auction, the Secretary will select two lenders for each state who will have the exclusive right to make parent Federal PLUS Loans in that state for two years. Following the conclusion of each two year period, the Secretary will conduct another auction to select lenders for the following two year period. The Secretary will guaranty loans made by winning lenders at 99% of the unpaid principal and interest due on the loan. No lender origination fee will be required.

### **Federal SLS Loans**

*General.* Federal SLS Loans were limited to graduate or professional students, independent undergraduate students, and dependent undergraduate students, if the students' parents were unable to obtain a Federal PLUS Loan and were also unable to provide the students' expected family contribution. Except for dependent undergraduate students, eligibility for Federal SLS Loans was determined without regard to need. Federal SLS Loans are similar to Subsidized Federal Stafford Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal reinsurance on the loans. However, Federal SLS Loans differ significantly from Subsidized Federal Stafford Loans, particularly because federal interest subsidy payments are not available under the Federal SLS Loan program and special allowance payments are more restricted.

*Interest Rates For Federal SLS Loans.* The applicable interest rates on Federal SLS Loans made prior to October 1, 1992 are identical to the applicable interest rates on Federal PLUS Loans made at the same time. For Federal SLS Loans made on or after October 1, 1992, the applicable interest rate is the same as the applicable interest rate on Federal PLUS Loans, except that the ceiling is 11% per annum instead of 10% per annum.

### **Federal Consolidation Loans**

*General.* The Higher Education Act authorized a program under which borrowers were eligible to consolidate their various federal student loans into a single loan that is insured and reinsured on a basis similar to Federal Stafford Loans and PLUS loans. Federal Consolidation Loans may have been obtained in an amount sufficient to pay outstanding principal, unpaid interest, collection costs and late charges on various individual student loans. Loans that can be consolidated include the Federal Family Education Loan Program Loans, Perkins Loans, Health Professional Student Loan Programs, Nursing Student Loans and Health Education Assistance Loans. To have been eligible for a Consolidation Loan, a borrower must:

- have had outstanding indebtedness on student loans made under the Federal Family Education Loan Program and/or certain other federal student loan programs, and
- been in repayment status or in a grace period, or

- been a defaulted borrower who has made arrangements to repay any defaulted loan satisfactory to the holder of the defaulted loan.

Prior to July 1, 2006, a married couple who agrees to be jointly and severally liable on a Federal Consolidation Loan, for which the application is received on or after January 1, 1993, and where each borrower is individually eligible, may be treated as an individual for purposes of obtaining a Consolidation Loan. For Federal Consolidation Loans disbursed prior to July 1, 1994 the borrower was required to have outstanding student loan indebtedness of at least \$7,500. Prior to the adoption of the Higher Education Technical Amendments Act of 1993, Federal PLUS Loans could not be included in the Consolidation Loan. For Federal Consolidation Loans for which the applications were received prior to January 1, 1993, the minimum student loan indebtedness was \$5,000 and the borrower could not be delinquent more than 90 days in the payment of such indebtedness. For applications received on or after January 1, 1993, borrowers were able to add additional loans to a Federal Consolidation Loan during the 180-day period following the origination of the Federal Consolidation Loan. Congress repealed the ability of borrowers to consolidate while still in school in the Higher Education Reconciliation Act of 2005.

*Repeal of Single Holder Rule.* On June 15, 2006, President Bush signed into law H.R. 4939, which eliminates the “single holder” rule that required borrowers of Federal Consolidation Loans to borrow from the lender that holds all of that borrower’s FFELP loans. Therefore, for Federal Consolidation Loan applications received on or after June 15, 2006, borrowers were able to borrow Federal Consolidation Loans from any authorized FFELP lender or under the Direct Loan program.

*Subsequent Consolidation Loans and Direct Consolidation Loans.* A borrower with a Federal Consolidation Loan may refinance that loan with a consolidation loan under the Direct Loan program to obtain an income contingent payment plan if the loan has been submitted to the guarantee agency for default aversion or to utilize the public service loan forgiveness program. Eligible active duty service military borrowers with a Federal Consolidation Loan may also refinance that loan with a consolidation loan under the Direct Loan program under which no interest will accrue. Borrowers may refinance their FFELP loans with a Direct Consolidation Loan to obtain a consolidation loan with income-sensitive or income-based repayment terms, to use the public service loan forgiveness program or to use the no accrual of interest for active duty service member program.

*Interest Rates For Federal Consolidation Loans.* A Federal Consolidation Loan made prior to July 1, 1994 bears interest at a rate equal to the weighted average of the interest rates on the loans retired, rounded to the nearest whole percent, but not less than 9% per annum. Except as described in this paragraph, a Federal Consolidation Loan made on or after July 1, 1994 bears interest at a rate equal to the weighted average of the interest rates on the loans retired, rounded upward to the nearest whole percent, but with no minimum rate. For a Federal Consolidation Loan for which the application was received by an eligible lender on or after November 13, 1997 and before October 1, 1998, the interest rate shall be adjusted annually, and for any twelve-month period commencing on a July 1 shall be equal to the bond equivalent rate of 91-day U.S. Treasury bills auctioned at the final auction prior to the preceding June 1, plus 3.10% per annum, but not to exceed 8.25% per annum. Notwithstanding those general interest rates, the portion, if any, of a Federal Consolidation Loan that repaid a loan made under title VII, Sections 700-721 of the Public Health Services Act, as amended, has a different variable interest rate. Such portion is adjusted on July 1 of each year, but is the sum of the average of the T-Bill Rates auctioned for the quarter ending on the preceding June 30, plus 3.0%, without any cap on the interest rate. Federal Consolidation Loans made on or after October 1, 1998 bear interest at a per annum rate equal to the lesser of 8.25% or the weighted average of the interest rates on the loans consolidated, rounded to the nearest higher 1/8th of 1%. For a discussion of required payments that reduce the return on Federal Consolidation Loans, see “—Fees—Rebate Fees on Federal Consolidation Loans” in this offering memorandum.

### **Recapture of Excess Interest**

The Higher Education Reconciliation Act of 2005 provides that, with respect to a loan for which the first disbursement of principal was made on or after April 1, 2006, if the applicable interest rate for any 3 month period exceeds the special allowance support level applicable to such loan for such period, then an adjustment shall be made by calculating the excess interest and crediting such amounts to the government not less often than annually. The amount of any adjustment of interest for any quarter will be equal to:

- the applicable interest rate minus the special allowance support level for the loan, multiplied by
- the average daily principal balance of the loan during the quarter, divided by
- four.

## **Limitation of Interest Under Servicemembers Civil Relief Act**

The Higher Education Opportunity Act of 2008 provides that the interest rate limitations of the Servicemembers Civil Relief Act apply to FFELP loans. The Servicemembers Civil Relief Act provides that interest on debt incurred by a servicemember, or the servicemember and the servicemember's spouse jointly, before the servicemember enters military service shall not bear interest at a rate in excess of 6% per year during the period of military service. For loans first disbursed on or after July 1, 2008, the "Applicable Interest Rate" used in calculating special allowance payments shall equal the lesser of this 6% interest rate cap or the interest rate that is otherwise applicable to the loan.

## **Maximum Loan Amounts**

Each type of loan was subject to limits on the maximum principal amount, both with respect to a given year and in the aggregate. Federal Consolidation Loans were limited only by the amount of eligible loans consolidated. All of the loans were limited to the difference between the cost of attendance and the other aid available to the student. Federal Stafford Loans were also subject to limits based upon needs analysis. Additional limits are described below.

*Loan Limits For Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans.* A student who has not successfully completed the first year of a program of undergraduate education was able to borrow up to \$2,625 of Subsidized Federal Stafford Loans in an academic year. A student who has successfully completed the first year, but who has not successfully completed the second year was able to borrow up to \$3,500 of Subsidized Federal Stafford Loans per academic year. Beginning July 1, 2007, these amounts were increased to \$3,500 and \$4,500 respectively. An undergraduate student who has successfully completed the first and second year, but who has not successfully completed the remainder of a program of undergraduate education, was able to borrow up to \$5,500 of Subsidized Federal Stafford Loans per academic year. A graduate or professional student was able to borrow up to \$8,500 of Subsidized Federal Stafford Loans in an academic year. The maximum aggregate amount of Subsidized Federal Stafford Loans which an undergraduate student may have outstanding is \$23,000. The maximum aggregate amount for a graduate and professional student, including loans for undergraduate education, is \$65,500. In addition to Subsidized Federal Stafford Loans, independent undergraduate students, graduate and professional students, and certain dependent undergraduate students were able to eligible to receive Unsubsidized Federal Stafford Loans in amounts in excess of the amounts borrowed using Subsidized Federal Stafford Loans. A student who has not successfully completed the second year of a program of undergraduate education or an undergraduate independent student enrolled in coursework necessary for enrollment in a graduate or professional program was able to borrow up to \$6,000 of Unsubsidized Federal Stafford Loans in an academic year. A student who has successfully completed the second year of a program of undergraduate education, an undergraduate independent student or a student that has obtained a baccalaureate degree who was enrolled in coursework necessary for a professional credential or certification from a state required for employment as a teacher in an elementary or secondary school, or a student that has obtained a baccalaureate degree and who was enrolled in coursework necessary for enrollment in a graduate or professional program, was able to borrow up to \$7,000 of Unsubsidized Federal Stafford Loans in an academic year. The aggregate maximum amount of Subsidized Federal Stafford Loans, Unsubsidized Federal Stafford Loans and Federal SLS Loans an undergraduate dependant student or an undergraduate independent student may borrow was \$31,000 or \$57,500, respectively. Graduate and professional students were able to borrow up to \$12,000 of Unsubsidized Federal Stafford Loans in an academic year. The aggregate maximum amount of Subsidized Federal Stafford Loans, Unsubsidized Federal Stafford Loans and Federal SLS Loans a graduate student may have outstanding, including undergraduate loans, is \$138,500. For students enrolled in programs of less than an academic year in length, the limits for both Subsidized and Unsubsidized Federal Stafford Loans were generally reduced in proportion to the amount by which the programs are less than one year in length. The Secretary of Education is authorized to increase the limits applicable to graduate and professional students who are pursuing programs that the Secretary of Education determines to be exceptionally expensive.

For Subsidized Federal Stafford Loans disbursed prior to July 1, 1993, an undergraduate student who had not successfully completed the first and second year of a program of undergraduate education could borrow Subsidized Federal Stafford Loans in amounts up to \$2,625 in an academic year. An undergraduate student who had successfully completed the first and second year, but who had not successfully completed the remainder of a program of undergraduate education could borrow up to \$4,000 per academic year. The maximum for graduate and professional students was \$7,500 per academic year. The maximum aggregate amount of Subsidized Federal Stafford Loans that a borrower could have outstanding was \$17,250. The maximum aggregate amount for a graduate or professional student, including loans for undergraduate education, was \$54,750. Prior to the 1986 changes, the annual limits were generally lower.

*Loan Limits For Federal PLUS Loans.* For Federal PLUS Loans made on or after July 1, 1993, the amounts of Federal PLUS Loans were limited only by the student's unmet need. Prior to that time Federal PLUS Loans were subject to limits similar to those of Federal SLS Loans applied with respect to each student on behalf of whom the parent borrowed.

*Loan Limits For Federal SLS Loans.* Prior to 1993, Federal SLS Loans could be obtained by undergraduate, graduate and professional students to finance their education. A student who had not successfully completed the first and second year of a program

of undergraduate education could borrow a Federal SLS Loan in an amount of up to \$4,000. A student who had successfully completed the first and second year, but who had not successfully completed the remainder of a program of undergraduate education could borrow up to \$5,000 per year. Graduate and professional students could borrow up to \$10,000 per year. Federal SLS Loans were subject to an aggregate maximum of \$23,000 (\$73,000 for graduate and professional students). Prior to the 1992 changes, Federal SLS Loans were available in amounts of \$4,000 per academic year, up to a \$20,000 aggregate maximum. Prior to the 1986 changes, a graduate or professional student could borrow \$5,000 of Federal SLS Loans per academic year, up to a \$25,000 maximum, and an independent undergraduate student could borrow \$2,500 of Federal SLS Loans per academic year minus the amount of all other Federal Family Education Loan Program loans to such student for such academic year, up to the maximum amount of all Federal Family Education Loan Program loans to that student of \$12,500. In 1989, the amount of Federal SLS Loans for students enrolled in programs of less than an academic year in length were limited in a manner similar to the limits described above under “—*Subsidized Federal Stafford Loans.*”

## **Disbursement Requirements**

The Higher Education Act required that virtually all Federal Stafford Loans and Federal PLUS Loans be disbursed by eligible lenders in at least two separate installments. The proceeds of a loan made to any undergraduate first-year student borrowing for the first time under the program were required to be delivered to the student no earlier than 30 days after the enrollment period begins. However, a school was exempted from the 30 day delayed delivery requirement for first-year students if the institution’s cohort default rate was less than 10% for the three most recent fiscal years. For all other students, disbursement must not have occurred more than 30 days prior to the beginning of the period of enrollment for which the loan was made.

## **Repayment**

*Repayment Periods.* Loans made under the Federal Family Education Loan Program, other than Federal Consolidation Loans, must provide for repayment of principal in periodic installments over a period of not less than five nor more than ten years. After the 1998 Amendments, lenders were required to offer extended repayment schedules to new borrowers who accumulate outstanding Federal Family Education Loan Program loans of more than \$30,000, in which case the repayment period may extend up to 25 years subject to certain minimum repayment amounts. A Federal Consolidation Loan must be repaid during a period agreed to by the borrower and lender, subject to maximum repayment periods that vary depending upon the principal amount of the borrower’s outstanding student loans, but may not be longer than 30 years. For Federal Consolidation Loans for which the application was received prior to January 1, 1993, the repayment period could not exceed 25 years. Repayment of principal of a Stafford Loan does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable grace period. Grace periods may be waived by borrowers. For Federal Stafford Loans for which the applicable rate of interest is 7% per annum, the repayment period commences not more than twelve months after the borrower ceases to pursue at least a half-time course of study. For other Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans, the repayment period commences not more than six months after the borrower ceases to pursue at least a half-time course of study. The six month or twelve month periods are the “grace periods.”

In the case of Federal SLS, PLUS and Consolidation Loans, the repayment period commenced on the date of final disbursement of the loan, except that the borrower of an Federal SLS Loan who also has a Stafford Loan may defer repayment of the Federal SLS Loan to coincide with the commencement of repayment of the Subsidized Federal Stafford Loan or Unsubsidized Federal Stafford Loan. In addition, for Federal PLUS Loans first disbursed on or after July 1, 2008, the borrower may elect for the repayment period to commence the day after six months after the date the student for whom the loan is borrowed or the borrower ceases to pursue at least a half-time course of study, whichever is later. During periods in which repayment of principal is required, payments of principal and interest must in general be made at a rate the lesser of \$600 per year or the balance of all outstanding loans (with interest that accrues during the year), except that a borrower and lender may agree to a lesser rate at any time before or during the repayment period. A borrower may agree, with concurrence of the lender, to repay the loan in less than five years with the right subsequently to extend his minimum repayment period to five years. Borrowers may accelerate, without penalty, the repayment of all or any part of the loan.

Each student loan provides for amortization of its outstanding principal balance over a series of regular payments. In most cases, the payment amount does not change over the life of the loan, although graduated and income-sensitive payment schedules are also available to borrowers. Typically, each regular payment consists of an installment of interest that is calculated on the basis of the outstanding principal balance of the student loan multiplied by the applicable interest rate and further multiplied by the period elapsed (as a fraction of a calendar year) since the preceding payment of interest was made. As payments are received in respect of the student loan, the amount received is applied first to interest accrued to the date of payment and the balance is applied to reduce the unpaid principal balance. Accordingly, if a borrower pays a regular installment before its scheduled due date, the portion of the payment allocable to interest for the period since the preceding payment was made will be less than it would have been had the payment been made as scheduled, and the portion of the payment applied to reduce the unpaid principal balance will be correspondingly greater. Conversely, if a borrower pays a monthly installment after its scheduled due date, the portion of the payment allocable to interest for

the period since the preceding payment was made will be greater than it would have been had the payment been made as scheduled, and the portion of the payment applied to reduce the unpaid principal balance will be correspondingly less. In either case, subject to any applicable deferral periods or forbearance periods, the borrower pays a regular installment until the final scheduled distribution date, at which time the amount of the final installment is increased or decreased as necessary to repay the then outstanding principal balance of the student loan.

*Income Sensitive Repayment Schedules.* Since 1992, lenders of FFELP loans have been required to offer graduated or income-sensitive repayment schedules. Use of income-sensitive repayment schedules may extend the ten-year maximum repayment term for up to five years. In addition, if the repayment schedule on a loan that has been converted to a variable interest rate does not provide for adjustments to the amount of the monthly installment payments, the ten-year maximum term may be extended for up to three years.

*Income Based Repayment.* Beginning July 1, 2009, income based repayment is available to borrowers of FFELP loans (other than parent Federal PLUS Loans made on behalf of a dependent student and any Federal Consolidation Loan used to discharge a parent Federal PLUS Loan made on behalf of a dependant student) who has a partial financial hardship as determined on an annual basis under the Higher Education Act. Borrowers may elect to make a reduced payment not to exceed 15% of the amount by which the borrower's adjusted gross income exceeds 150% of the poverty line applicable to the borrower's family size. Payments are first applied to interest and then to principal. Any interest due and not paid by a borrower of a Federal Subsidized Loan will be paid by the Secretary of Education for up to 3 years from the date the borrower began the income based repayment program, exclusive of any period during which the borrower is on an economic hardship deferment. After the 3 year period, and for any other FFELP loan, accrued and unpaid interest is capitalized at the time the borrower exits the income based repayment program. Participation in the income based repayment program may extend the maximum repayment period beyond 10 years. The Secretary of Education will repay or cancel any outstanding balance of principal or interest upon satisfaction of certain borrower payment conditions within time periods (not to exceed 25 years) prescribed by the Secretary. Special allowance payments made on a loan subject to income based repayments will be calculated on the principal balance of the loan and on any unpaid accrued interest.

*Deferment Periods.* No principal repayments need be made during certain periods of deferment prescribed by the Higher Education Act. For loans to a borrower who first obtained a loan that was disbursed before July 1, 1993, deferments are available:

- during a period not exceeding three years while the borrower is a member of the Armed Forces, an officer in the Commissioned Corps of the Public Health Service or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan to cover the cost of instruction for a period of enrollment beginning on or after July 1, 1987, an active duty member of the National Oceanic and Atmospheric Administration Corps;
- during a period not in excess of three years while the borrower is a volunteer under the Peace Corps Act;
- during a period not in excess of three years while the borrower is a full-time volunteer under the Domestic Volunteer Act of 1973;
- during a period not exceeding three years while the borrower is in service, comparable to the service described above as a full-time volunteer for an organization that is exempt from taxation under Section 501(c)(3) of the Internal Revenue Code;
- during a period not exceeding two years while the borrower is serving an internship necessary to receive professional recognition required to begin professional practice or service, or a qualified internship or residency program;
- during a period not exceeding three years while the borrower is temporarily totally disabled, as established by sworn affidavit of a qualified physician, or while the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled;
- during a period not to exceed twenty-four months while the borrower is seeking and unable to find full-time employment;
- during any period that the borrower is pursuing a full-time course of study at an eligible institution (or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan to cover the cost of instruction for a period of enrollment beginning on or after July 1, 1987, is pursuing at least a half-time course of study for which the borrower has obtained a loan under the Federal Family Education Loan Program), or is pursuing



a course of study pursuant to a graduate fellowship program or a rehabilitation training program for disabled individuals approved by the Secretary of Education;

- during a period, not in excess of 6 months, while the borrower is on parental leave; and
- only with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan to cover the cost of instruction for a period of enrollment beginning on or after July 1, 1987, during a period not in excess of three years while the borrower is a full-time teacher in a public or nonprofit private elementary or secondary school in a “teacher shortage area” (as prescribed by the Secretary of Education), and during a period not in excess of 12 months for mothers, with preschool age children, who are entering or re-entering the work force and who are compensated at a rate not exceeding \$1 per hour in excess of the federal minimum wage.

For loans to a borrower who first obtains a loan on or after July 1, 1993, deferments are available:

- during any period that the borrower (or for Federal PLUS loans first disbursed on or after July 1, 2008, the student for which the Federal PLUS Loan was borrowed, if different), is pursuing at least a half-time course of study at an eligible institution a course of study pursuant to a graduate fellowship program or rehabilitation training program approved by the Secretary of Education;
- during a period not exceeding three years while the borrower is seeking and unable to find full-time employment; and
- during a period not in excess of three years for any reason that the lender determines, in accordance with regulations under the Higher Education Act, has caused or will cause the borrower economic hardship. Economic hardship includes working full time and earning an amount not in excess of the greater of 150% of the poverty line applicable to the borrower’s family size.

A deferment is available for loans to a borrower for periods during which the borrower is serving on active duty or is performing qualifying National Guard duty during a war or other military operation (including in response to terrorist attacks), or within 180 days following demobilization. An additional 13 months of deferment following the conclusion of service is also available for a borrower who is a member of the National Guard or other reserve component of the Armed Forces, or a member of the Armed Forces in a retired status, called or ordered to active duty, and is enrolled or was enrolled within six months prior to activation in a program of instruction at an eligible institution, except that this deferment will end upon a student’s return to school.

Prior to the 1992 changes, only certain of the deferment periods described above were available to Federal PLUS Loan borrowers, and only certain deferment periods were available to Federal Consolidation Loan borrowers. Prior to the 1986 changes, Federal PLUS Loan borrowers were not entitled to certain deferment periods. For Federal PLUS loans first disbursed on or after July 1, 2008, deferment period eligibility applies with respect to both the parent borrower as well as the graduate or professional student borrower for which the loan was borrowed. Deferment periods extend the maximum term.

*Forbearance Period.* The Higher Education Act also provides for periods of forbearance during which the borrower, in case of temporary financial hardship, may defer any payments. A borrower is entitled to forbearance for a period not to exceed three years while the borrower’s debt burden under Title IV of the Higher Education Act (which includes the Federal Family Education Loan Program) equals or exceeds 20% of the borrower’s gross income or while the borrower is a member of the Armed Forces eligible to have interest payments made on his or her behalf. A borrower is also entitled to forbearance while he or she is serving in a qualifying medical or dental internship or residency program or in a “national service position” under the National and Community Service Trust Act of 1993. In addition, mandatory administrative forbearances are provided in exceptional circumstances such as a local or national emergency or military mobilization, or when the geographical area in which the borrower or endorser resides has been designated a disaster area by the President of the United States or Mexico, the Prime Minister of Canada, or by the governor of a state. In other circumstances, forbearance is at the lender’s option. Forbearance also extends the ten year maximum repayment term.

*Interest Payments During Grace, Deferment and Forbearance Periods.* The Secretary of Education makes interest payments on behalf of the borrower of certain eligible loans while the borrower is in school and during grace and deferment periods. Interest that accrues during forbearance periods and, if the loan is not eligible for interest subsidy payments, while the borrower is in school and during the grace and deferment periods, may be paid monthly or quarterly or capitalized not more frequently than quarterly.

*Discharges.* The Secretary of Education will discharge FFELP loans by repaying the amount owed on a loan in cases where a student borrower dies or becomes permanently and totally disabled (as determined in accordance with regulations established by the Secretary of Education), where the loan is discharged in bankruptcy, or, for loans received on or after January 1, 1986, where the student is unable to complete the program in which the student is enrolled because the school closes, the student’s eligibility for a loan

was falsely certified by the school or was falsely certified as a result of identity theft, or the school failed to make a required refund of loan proceeds to the student's lender (in which case the amount discharged will be limited to the amount that should have been refunded). The Secretary of Education will also discharge Federal PLUS loans in cases where the student on whose behalf the loan was borrowed dies. A FFELP loan cannot be discharged in bankruptcy unless the borrower demonstrates that repaying the loan would cause undue hardship.

## **Fees**

*Guarantee Fee.* A guarantee agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which must be deducted proportionately from each installment payment of the proceeds of the loan to the borrower. For loans guaranteed on or after July 1, 2006, the 1% guarantee fee was eliminated and a 1% federal default fee was required to be collected from proceeds of the loan or other non-federal sources and was required to be deposited into the Federal Student Loan Reserve Fund. Guarantee fees were not chargeable to borrowers of Federal Consolidation Loans. However, lenders may have been charged a fee to cover the costs of increased or extended liability with respect to Federal Consolidation Loans. For loans made prior to July 1, 1994, the maximum guarantee fee was 3% of the principal amount of the loan, but no such guarantee fee was authorized to be charged with respect to Unsubsidized Federal Stafford Loans.

*Origination Fee.* An eligible lender was authorized to charge the borrower of a Subsidized Federal Stafford Loan or an Unsubsidized Federal Stafford Loan an origination fee in an amount not to exceed 3% of the principal amount of the loan, and was required to charge the borrower of a Federal PLUS Loan an origination fee in the amount of 3% of the principal amount of the loan. These fees were deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower. These fees were not retained by the lender, but were passed on to the Secretary of Education. Pursuant to the provisions of the Higher Education Reconciliation Act of 2005, Stafford Loan origination fees were phased out by July 1, 2010. Beginning with Stafford Loans for which the first disbursement of principal is made on or after July 1, 2006, and before July 1, 2007, the maximum origination fee that can be charged is 2%. The maximum fee decreases to 1.5% on July 1, 2007, 1.0% on July 1, 2008, 0.5% on July 1, 2009 through June 30, 2010.

*Lender Origination Fee.* The lender of any loan under the Federal Family Education Loan Program made on or after October 1, 1993 was required to pay to the Secretary of Education a fee equal to 0.5% of the principal amount of such loan. This fee increased to 1.0% for loans first disbursed on or after October 1, 2007.

*Rebate Fee on Federal Consolidation Loans.* The holder of any Federal Consolidation Loan made on or after October 1, 1993 through September 30, 1998 and on or after February 1, 1999 is required to pay to the Secretary of Education a monthly fee equal to 0.0875% (1.05% per annum) of the principal amount of, and accrued interest on the Federal Consolidation Loan. For loans made pursuant to applications received on or after October 1, 1998, and on or before January 31, 1999 the fee on consolidation loans of 1.05% is reduced to 0.62%.

## **Interest Subsidy Payments**

Interest subsidy payments are interest payments paid with respect to an eligible loan before the time that the loan enters repayment and during grace and deferment periods. The Secretary of Education and the guarantee agencies have entered into interest subsidy agreements whereby the Secretary of Education agreed to pay interest subsidy payments to the holders of eligible guaranteed loans for the benefit of students meeting certain requirements, subject to the holders' compliance with all requirements of the Higher Education Act. Only Subsidized Federal Stafford Loans and Federal Consolidation Loans for which the application was received on or after January 1, 1993, are eligible for interest subsidy payments. Federal Consolidation Loans made after August 10, 1993 are eligible for interest subsidy payments only if all loans consolidated thereby are Subsidized Federal Stafford Loans, except that Federal Consolidation Loans for which the application is received by an eligible lender on or after November 13, 1997 are eligible for interest subsidy payments on that portion of the Federal Consolidation Loan that repays Subsidized Federal Stafford Loans or similar subsidized loans made under the direct loan program.

In addition, to be eligible for interest subsidy payments, guaranteed loans were required to be made by an eligible lender under the applicable guarantee agency's guarantee program, and must meet requirements prescribed by the rules and regulations promulgated under the Higher Education Act.

The Secretary of Education makes interest subsidy payments quarterly on behalf of the borrower to the holder of a guaranteed loan in a total amount equal to the interest that accrues on the unpaid principal amount prior to the commencement of the repayment period of the loan or during any deferment period.

## Special Allowance Payments

The Higher Education Act provides for special allowance payments to be made by the Secretary of Education to eligible holders of qualifying loans. The rates for special allowance payments are based on formulas that differ according to the type of loan, the date the loan was originally made or insured and the type of funds used to finance the loan (taxable or tax-exempt).

The effective formulas for special allowance payment rates for Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans are summarized in the following chart. The T-Bill Rate mentioned in the chart refers to the average of the bond equivalent rate of the 91-day Treasury bills auctioned during the quarter. The 3-Month Commercial Paper Rate or the 1-month LIBOR Rate, as applicable, mentioned in the chart refers to the average of the bond equivalent rate of the quotes of the 3-month commercial paper (financial) rates or 1-month LIBOR, as applicable, in effect for each of the days in the quarter.

<u>Date of Loans</u>	<u>Annualized SAP Rate</u> <sup>(1)</sup>
On or after October 1, 1981	T-Bill Rate less Applicable Interest Rate + 3.50% <sup>(2)</sup>
On or after November 16, 1986	T-Bill Rate less Applicable Interest Rate + 3.25%
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% <sup>(3)</sup>
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.80% <sup>(4)</sup>
On or after January 1, 2000	3-Month Commercial Paper Rate or 1-Month LIBOR less Applicable Interest Rate + 2.34% <sup>(5)</sup>
On or after October 1, 2007	3-Month Commercial Paper Rate or 1-Month LIBOR less Applicable Interest Rate + 1.79% <sup>(6)</sup>

<sup>(1)</sup> The Applicable Interest Rate is 6% for any loan for which the rate of interest is limited pursuant to the Servicemembers Civil Relief Act.

<sup>(2)</sup> Substitute 3.25% in this formula for Subsidized Federal Stafford Loans disbursed on or after October 17, 1986 for periods of enrollment beginning on or after November 16, 1986.

<sup>(3)</sup> Substitute 2.5% in this formula while such loans are in the in-school, deferral, or grace period.

<sup>(4)</sup> Substitute 2.2% in this formula while such loans are in-school, during the grace period, and during any deferment periods. Substitute 3.10% for Federal PLUS Loans and Federal Consolidation Loans.

<sup>(5)</sup> Substitute 1.74% in this formula while such loans are in-school, during the grace period, and during any deferment periods. Substitute 2.64% for Federal PLUS Loans and Federal Consolidation Loans.

<sup>(6)</sup> Substitute 1.19% in this formula while such loans are in-school, during the grace period, and during any deferment periods. Substitute 2.09% for Federal Consolidation Loans. Add 0.15% to each percentage when the loan is held by any eligible not for profit holder. Beginning July 1, 2009, special allowance rates for parent Federal PLUS Loans will be determined by a state by state auction conducted by the Secretary of Education.

The Higher Education Act defines “eligible not for profit holder” as an eligible lender that is a State or a political subdivision, authority, agency or other instrumentality thereof, a 150(d) entity that has not gone through a for-profit conversion, a 501(c)(3) entity or a trustee acting on behalf of any of these entities. An eligible not for profit holder must be acting as an eligible lender on September 7, 2007, except that a State was able to add a new eligible lender after this date if the State determined that doing so was necessary to carry out the public purpose of the State. An eligible not for profit holder may not be owned or controlled, in whole or in part, by a for-profit entity. An entity shall not be an eligible not for profit holder with respect to a loan unless that entity is the sole owner of the beneficial interest in that loan and the income from that loan. Any eligible nonprofit, however, will not lose its status as sole owner of a beneficial interest in a loan by granting a security interest in or otherwise pledging as collateral the loan or the income from the loan. Trustees will not be considered an eligible not for profit holder if they receive compensation in excess of reasonable and customary fees for its services.

The effective formulas for special allowance payment rates for loans differ depending on whether loans to borrowers were acquired or originated with the proceeds of tax-exempt obligations. There are minimum special allowance payment rates for loans acquired with proceeds of tax-exempt obligations, which rates effectively ensure an overall minimum return of 9.5% on such loans. However, loans acquired with the proceeds of tax-exempt obligations originally issued after September 30, 1993 are treated the same as other loans for special allowance payment purposes. In addition, loans that: (1) were financed through tax-exempt obligations that have matured or been retired or defeased after September 30, 2004; (2) are refinanced after September 30, 2004 with funds from another source; (3) sold or transferred to any other holder after September 30, 2004; (4) were made or purchased on or after February 8, 2006; or (5) were not subject to the 9.5% minimum return treatment on February 8, 2006 are treated the same as other loans for special allowance payment purposes. The February 8, 2006 cut-off date is extended to December 31, 2010 for holders who, on February 8, 2006, were a unit of a state or local government or a non-profit entity that was owned or controlled by or under common ownership of a for-profit entity and held directly through any subsidiary, affiliate or trustee and whose total unpaid balance of

principal on 9.5% minimum return loans in the most recent quarterly payment prior to September 30, 2005 was less than or equal to \$100,000,000.

The Higher Education Act provides that if special allowance payments or interest subsidy payments have not been made within 30 days after the Secretary of Education receives an accurate, timely and complete request therefor, the special allowance payable to such holder shall be increased by an amount equal to the daily interest accruing on the special allowance and interest subsidy payments due the holder.

Special allowance payments and interest subsidy payments are reduced by the amount that the lender is authorized or required to charge as an origination fee. In addition, the amount of the lender origination fee is collected by offset to special allowance payments and interest subsidy payments.

*Limitations on Federal PLUS, Federal SLS Loans and Consolidation Loans.* Special allowance payments are made with respect to Consolidation Loans for which the application is received on or after October 1, 1998 and prior to January 1, 2000 only if the T-Bill Rate plus 3.10% exceeds the applicable interest rate on the loan. The portion, if any, of a Federal Consolidation Loan that repaid a loan made under Title VII, Sections 700-721 of the Public Health Services Act, as amended, is ineligible for special allowance payments. Special Allowance Payments are paid with respect to Federal SLS Loans and Federal PLUS Loans made on or after July 1, 1987 and prior to October 1, 1992 only if the interest rate that would otherwise apply (notwithstanding any applicable interest rate caps) exceeds 12% per annum. Special Allowance Payments are paid with respect to Federal SLS Loans made on or after October 1, 1992 but prior to July 1, 1994, only if the interest rate that would otherwise apply (notwithstanding any applicable interest rate caps) exceeds 11% per annum. Special Allowance Payments are paid with respect to Federal PLUS Loans made on or after October 1, 1992 only if the interest rate that would otherwise apply (notwithstanding any applicable interest rate caps) exceeds 10% per annum. Special Allowance Payments are made with respect to Federal PLUS Loans made on or after July 1, 1998 and prior to January 1, 2000 only if the interest rate that would otherwise apply (notwithstanding any applicable interest rate cap) exceeds 9% per annum.

## DESCRIPTION OF THE GUARANTEE AGENCIES

The following discussion relates to guarantee agencies under the Federal Family Education Loan Program. **As described above under “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM,” no new FFELP loans will be guaranteed by the guarantee agencies on or after July 1, 2010.** See “RISK FACTORS—Changes in law may adversely affect participants in the Federal Family Education Loan Program” in this offering memorandum. The FFELP loans held under the indenture will be guaranteed by one of the guarantee agencies identified in this offering memorandum under “REGARDING THE STUDENT LOANS—Description of Guarantee Agencies for the FFELP Loans.”

*General.* A guarantee agency guaranteed FFELP loans made to students or parents of students by lending institutions such as banks, credit unions, savings and loan associations, certain schools, pension funds and insurance companies. Generally, a guarantee agency will reimburse 100% of each FFELP loan disbursed before October 1, 1993, 98% of each FFELP loan first disbursed on or after October 1, 1993 and on or before June 30, 2006 and 97% of each FFELP loan first disbursed on or after July 1, 2006. On or after July 1, 2006, a guarantee agency must reimburse 100% of each FFELP loan for which it is determined that the borrower (or the student on whose behalf a parent has borrowed), without the lender’s or institution’s knowledge at the time the loan was made, provided false or erroneous information or took actions that caused the borrower or the student to be ineligible for all or a portion of the loan or interest benefits. A guarantee agency generally purchases defaulted student loans that it has guaranteed with its reserve fund. A lender may submit a default claim to the guarantee agency after the student loan has been delinquent for at least 270 days. The default claim package must include all information and documentation required under the Federal Family Education Loan Program regulations and the guarantee agency’s policies and procedures.

Each guarantee agency’s guarantee obligations with respect to any student loan is conditioned upon the satisfaction of all the conditions in the applicable guarantee agreement. Those conditions include, but are not limited to, the following:

- the origination and servicing of the student loan being performed in accordance with the Federal Family Education Loan Program, the Higher Education Act, the guarantee agency’s rules and other applicable requirements;
- the timely payment to the guarantee agency of the guarantee fee payable on the student loan; and
- the timely submission to the guarantee agency of all required pre-claim delinquency status notifications and of the claim on the student loan.

Failure to comply with any of the applicable conditions, including those listed above, may result in the refusal of the guarantee agency to honor its guarantee agreement on the student loan, in the denial of guarantee coverage for certain accrued interest amounts, and/ or in the loss of certain interest subsidy payments and special allowance payments.

Guarantee agencies have two separate funds, a federal reserve fund and an agency operating fund. In general, a guarantee agency's federal reserve fund has been funded principally by administrative cost allowances and other payments made by the Secretary of Education, guarantee fees paid by borrowers, investment income on money in the reserve fund, and a portion of the money collected from borrowers on guaranteed loans that has been retained by the guarantee agency.

Various changes to the Higher Education Act and practices of guarantee agencies have adversely affected the receipt of revenues by the guarantee agencies and their ability to maintain their reserve funds at previous levels, and may adversely affect their ability to meet their guarantee obligations. The changes and practices include:

- the reduction in reinsurance payments from the Secretary of Education because of reduced reimbursement percentages on new loans;
- the reduction in maximum permitted guarantee fees from 3% to 1% for loans made on or after July 1, 1994, and the widespread practice among guarantee agencies of charging no fee or less than the maximum authorized fee;
- the replacement of the administrative cost allowance with a student loan processing and issuance fee equal to 65 basis points (40 basis points for loans made on or after October 1, 1993) paid at the time a loan is guaranteed, and an account maintenance fee of 12 basis points (10 basis points on or after October 1, 2000 and 6 basis points on or after October 1, 2007) paid annually on outstanding guaranteed student loans;
- the reduction in supplemental preclaims payments assistance from the Secretary of Education; and
- the reduction in permissible retention by a guarantee agency of collections on defaulted loans from 27% to 24% (23% beginning on October 1, 2003 and 16% beginning October 1, 2007).

Additionally, the adequacy of a guarantee agency's reserve fund to meet its guarantee obligations with respect to existing student loans depends, in significant part, on its ability to collect revenues generated by new loan guarantees. It is not possible to predict the impact of the elimination of the FFELP program on the guarantee agencies. See "*RISK FACTORS—Changes in law may adversely affect participants in the Federal Family Education Loan Program*" in this offering memorandum.

The Higher Education Act gives the Secretary of Education various oversight powers over guarantee agencies. Those powers include requiring a guarantee agency to maintain its reserve fund at a certain required level and taking various actions relating to a guarantee agency if its administrative and financial condition jeopardizes its ability to meet its obligations. Those actions include, among others, providing advances to the guarantee agency, terminating the guarantee agency's federal reimbursement contracts, assuming responsibility for all functions of the guarantee agency, and transferring the guarantee agency's guarantees to another guarantee agency or assuming such guarantees. The Higher Education Act provides that a guarantee agency's reserve fund shall be considered to be the property of the United States to be used in the operation of the Federal Family Education Loan Program or the Federal Direct Student Loan Program, and, under certain circumstances, the Secretary of Education may demand payment of amounts in the reserve fund.

The 1998 Amendments mandate the recall of guarantee agency reserve funds by the Secretary of Education amounting to \$85 million in fiscal year 2002, \$82.5 million in fiscal year 2006, and \$82.5 million in fiscal year 2007. However, certain minimum reserve levels are protected from recall, and under the 1998 Amendments, guarantee agency reserve funds were restructured to provide guarantee agencies with additional flexibility in choosing how to spend certain funds they receive. The new recall of reserves for guarantee agencies increases the risk that resources available to guarantee agencies to meet their guarantee obligation will be significantly reduced. Relevant federal laws, including the Higher Education Act, may be further changed in a manner that may adversely affect the ability of a guarantee agency to meet its guarantee obligations.

Under the Higher Education Act, if the Department of Education has determined that a guarantee agency is unable to meet its insurance obligations, the holders of loans guaranteed by such guarantee agency must submit claims directly to the Department of Education, and the Department of Education is required to pay the full guarantee payment due with respect thereto in accordance with guarantee claims processing standards no more stringent than those applied by the guarantee agency. We cannot assure you that the United States Department of Education would ever make such a determination with respect to a guarantee agency or, if such a determination was made, whether that determination or the ultimate payment of guarantee claims would be made in a timely manner.

There are no assurances as to the Secretary of Education's actions if a guarantee agency encounters administrative or financial difficulties or that the Secretary of Education will not demand that a guarantee agency transfer additional portions or all of its reserve fund to the Secretary of Education.

*Federal Agreements.* A guarantee agency's right to receive federal reimbursements for various guarantee claims paid by such guarantee agency is governed by the Higher Education Act and various contracts entered into between guarantee agencies and the Secretary of Education. Each guarantee agency and the Secretary of Education have entered into federal reimbursement contracts pursuant to the Higher Education Act that provide for the guarantee agency to receive reimbursement of a percentage of insurance payments that the guarantee agency makes to eligible lenders with respect to loans guaranteed by the guarantee agency prior to the termination of the federal reimbursement contracts or the expiration of the authority of the Higher Education Act. The federal reimbursement contracts provide for termination under certain circumstances and also provide for certain actions short of termination by the Secretary of Education to protect the federal interest.

In addition to guarantee benefits, qualified student loans acquired under the Federal Family Education Loan Program benefit from certain federal subsidies. Each guarantee agency and the Secretary of Education have entered into an Interest Subsidy Agreement under the Higher Education Act that entitles the holders of eligible loans guaranteed by the guarantee agency to receive interest subsidy payments from the Secretary of Education on behalf of certain students while the student is in school, during a six to twelve month grace period after the student leaves school and during certain deferment periods, all subject to the holders' compliance with all requirements of the Higher Education Act.

United States Courts of Appeals have held that the federal government, through subsequent legislation, has the right unilaterally to amend the contracts between the Secretary of Education and the guarantee agencies described herein. Amendments to the Higher Education Act in 1986, 1987, 1992, 1993, and 1998, respectively:

- abrogated certain rights of guarantee agencies under contracts with the Secretary of Education relating to the repayment of certain advances from the Secretary of Education,
- authorized the Secretary of Education to withhold reimbursement payments otherwise due to certain guarantee agencies until specified amounts of such guarantee agencies' reserves had been eliminated,
- added new reserve level requirements for guarantee agencies and authorized the Secretary of Education to terminate the Federal Reimbursement Contracts under circumstances that did not previously warrant such termination,
- expanded the Secretary of Education's authority to terminate such contracts and to seize guarantee agencies' reserves, and
- mandated the additional recall of guarantee agency reserve funds.

*Federal Insurance and Reimbursement of Guarantee Agencies-Effect of Annual Claims Rate.* With respect to loans made prior to October 1, 1993, the Secretary of Education currently agrees to reimburse the guarantee agency for up to 100% of the amounts paid on claims made by lenders, as discussed in the formula described below, so long as the eligible lender has properly originated and serviced such loan. The amount of reimbursement is lower for loans originated after October 1, 1993, as described below. Depending on the claims rate experience of a guarantee agency, such reimbursement may be reduced as discussed in the formula described below. The Secretary of Education also agrees to repay 100% of the unpaid principal plus applicable accrued interest expended by a guarantee agency in discharging its guarantee obligation as a result of the bankruptcy, death, or total and permanent disability of a borrower, or in the case of a Federal PLUS Loan, the death of the student on behalf of whom the loan was borrowed, or in certain circumstances, as a result of school closures, which reimbursements are not to be included in the calculations of the guarantee agency's claims rate experience for the purpose of federal reimbursement under the Federal Reimbursement Contracts.

The formula used for loans varies depending upon when a loan was initially disbursed, as summarized below:

<u>Claims Rate</u>	<u>Federal Payment on loans disbursed prior to 10/1/93</u>	<u>Federal Payment on loans disbursed after 10/1/93</u>	<u>Federal Payment on loans disbursed after 10/1/98</u>
0% up to and including 5%.....	100%	98%	95%
Greater than 5% up to and including 9% .....	100% of claims up to and including 5%; 90% of claims over 5%	98% of claims up to and including 5%; 88% of claims over 5%	95% of claims up to and including 5%; 85% of claims over 5%
Greater than 9% .....	100% of claims up to and including 5%; 90% of claims over 5%, up to and including 9%; 80% of claims 9% and over	98% of claims up to and including 5%; 88% of claims over 5%, up to and including 9%; 78% of claims 9% and over	95% of claims up to and including 5%; 85% of claims over 5%, up to and including 9%; 75% of claims 9% and over

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.

FFELP loans first disbursed on or after July 1, 2006 will be reimbursed at 100% regardless of claims rate in the case of loans for which it is determined that the borrower (or the student on whose behalf a parent has borrowed), without the lender's or institution's knowledge at the time the loan was made, provided false or erroneous information or took actions that caused the borrower or the student to be ineligible for all or a portion of the loan or interest benefits.

The reduced reinsurance for guarantee agencies increases the risk that resources available to guarantee agencies to meet their guarantee obligation will be significantly reduced.

*Reimbursement.* The original principal amount of loans guaranteed by a guarantee agency that are in repayment for purposes of computing reimbursement payments to a guarantee agency means the original principal amount of all loans guaranteed by a guarantee agency less:

- the original principal amount of such loans that have been fully repaid or on which a guarantee payment has been made, and
- the original amount of such loans for which the first principal installment payment has not become due.

The Secretary of Education may withhold reimbursement payments if a guarantee agency makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary of Education or applicable federal law.

Under the guarantee agreements, if a payment on a Federal Family Education Loan guaranteed by a guarantee agency is received after reimbursement by the Secretary of Education, the guarantee agency is entitled to receive an equitable share of the payment.

Any originator of any student loan guaranteed by a guarantee agency was required to discount from the proceeds of the loan at the time of disbursement, and pay to the guarantee agency, an insurance premium that may not exceed that permitted under the Higher Education Act.

Under present practice, after the Secretary of Education reimburses a guarantee agency for a default claim paid on a guaranteed loan, the guarantee agency continues to seek repayment from the borrower. The guarantee agency returns to the Secretary of Education payments that it receives from a borrower after deducting and retaining: a percentage amount equal to the complement of the reimbursement percentage in effect at the time the loan was reimbursed, and an amount equal to 24% of such payments (23% beginning October 1, 2003, 16% beginning October 1, 2007 or 18.5% in the case of a payment from the proceeds of a consolidation loan) for certain administrative costs. On or after October 1, 2006, a guarantee agency may not charge a borrower collection costs in an amount in excess of 18.5% of the outstanding principal and interest of a defaulted loan that is paid off by a consolidation loan and must remit to the Secretary of Education a portion of this collection charge equal to 8.5% of the outstanding principal and interest of the defaulted loan. On and after October 1, 2009, a guarantee agency must remit to the Secretary of Education the entire collection

charge for defaulted loans paid off by excess consolidation proceeds. Excess consolidation proceeds are the proceeds from defaulted loan consolidations that exceed 45% of the guarantee agency's total collections on defaulted loans in a federal fiscal year. Guarantee agencies must also adopt procedures to preclude consolidation lending from being an excessive proportion of the guarantee agency's default recoveries. The Secretary of Education may, however, require the assignment to the Secretary of Education of defaulted guaranteed loans, in which event no further collections activity need be undertaken by the guarantee agency, and no amount of any recoveries shall be paid to the guarantee agency.

A guarantee agency may enter into an addendum to its Interest Subsidy Agreement that allows the guarantee agency to refer to the Secretary of Education certain defaulted guaranteed loans. Such loans are then reported to the IRS to "offset" any tax refunds that may be due any defaulted borrower. To the extent that the guarantee agency has originally received less than 100% reimbursement from the Secretary of Education with respect to such a referred loan, the guarantee agency will not recover any amounts subsequently collected by the federal government that are attributable to that portion of the defaulted loan for which the guarantee agency has not been reimbursed.

*Rehabilitation of Defaulted Loans.* Under the Higher Education Act, each guarantee agency shall, if practicable, sell defaulted loans that are eligible for rehabilitation to an eligible lender or, on or before September 30, 2011, assign defaulted loans to the Secretary of Education if the Secretary of Education has determined that market conditions unduly limit a guaranty agency's ability to sell the defaulted loans and the guaranty agency has been unable to sell the defaulted loans. A guarantee agency may charge a borrower and retain collection costs in an amount not to exceed 18.5% of the outstanding principal and interest at the time of sale of a rehabilitated loan to an eligible lender. The guarantee agency shall repay the Secretary of Education an amount equal to 81.5% of the then current principal balance of such loan, multiplied by the reimbursement percentage in effect at the time the loan was reimbursed. The amount of such repayment shall be 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.

For a loan to be eligible for rehabilitation, the guarantee agency must have received 9 payments made within 20 days of the due date during 10 consecutive months of amounts owed on such loan. Upon rehabilitation, a loan is eligible for all the benefits under the Higher Education Act for which it would have been eligible had no default occurred (except that a borrower's loan may be rehabilitated only once).

*Eligibility for Federal Reimbursement.* To be eligible for federal reimbursement payments, guaranteed loans were required to be made and administered by an eligible lender under the applicable guarantee agency's guarantee program, which must have met requirements prescribed by the rules and regulations promulgated under the Higher Education Act, including the borrower eligibility, loan amount, disbursement, interest rate, repayment period and guarantee fee provisions described herein and the other requirements set forth in the Higher Education Act.

Prior to the 1998 Amendments, a Federal Family Education Loan was considered to be in default for purposes of the Higher Education Act when the borrower failed to make an installment payment when due, or to comply with the other terms of the loan, and if the failure persisted for 180 days in the case of a loan repayable in monthly installments or for 240 days in the case of a loan repayable in less frequent installments. Under the 1998 Amendments, the delinquency period required for a student loan to be declared in default is increased from 180 days to 270 days for loans payable in monthly installments on which the first day of delinquency occurs on or after the date of enactment of the 1998 Amendments and from 240 days to 330 days for a loan payable less frequently than monthly on which the delinquency occurs after the date of enactment of the 1998 Amendments.

The guarantee agency must pay the lender for the defaulted loan prior to submitting a claim to the Secretary of Education for reimbursement. The guarantee agency must submit a reimbursement claim to the Secretary of Education within 45 days after it has paid the lender's default claim. As a prerequisite to entitlement to payment on the guarantee by the guarantee agency, and in turn payment of reimbursement by the Secretary of Education, the lender must have exercised reasonable care and diligence in making, servicing and collecting the guaranteed loan. Generally, those procedures require that:

- completed loan applications be processed;
- a determination of whether an applicant is an eligible borrower attending an eligible institution under the Higher Education Act be made;
- the borrower's rights and responsibilities under the loan be explained to him or her;
- the promissory note evidencing the loan be executed by the borrower; and
- the loan proceeds be disbursed by the lender in a specified manner.



After the loan is made, the lender must diligently attempt to contact the borrower to establish repayment terms with the borrower, properly administer deferments and forbearances and credit the borrower for payments made. If a borrower becomes delinquent in repaying a loan, a lender must perform certain collection procedures, primarily telephone calls, demand letters, skiptracing procedures and requesting assistance from the applicable guarantee agency, that vary depending upon the length of time a loan is delinquent.

## **DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM**

### **General**

The Public Health Service Act, as most recently amended by the Health Professions Education Extension Partnership Act of 1998 (collectively, the "Public Health Service Act"), sets forth provisions establishing a program to provide insured health education assistance loans ("HEAL loans") for eligible graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic medicine or in programs in health administration, clinical psychology or allied health. The Public Health Service Act provides for direct federal insurance to holders of HEAL loans (the "Health Education Assistance Loan Program").

This discussion summarizes certain provisions of the Public Health Service Act and the Health Education Assistance Loan Program which has been subject to amendment from time to time, and reference is made to the text of the Public Health Service Act for full and complete statements of its provisions. The Public Health Service Act is found at 42 U.S.C. Section 216, et seq. Most provisions relating to the Health Education Assistance Loan Program are found at 42 U.S.C. Sections 292 through 292p. Regulations relating to the Health Education Assistance Loan Program are found at 42 C.F.R. Sections 60.1 through 60.61 (the "Regulations").

### **Eligible Borrower**

An eligible borrower under the Health Education Assistance Loan Program is a student who (i) meets certain citizen, national or resident requirements, (ii) has been accepted for enrollment at a school of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, pharmacy, public health or chiropractic, or a graduate program in health administration or clinical psychology (an "eligible institution") or, if attending an eligible institution, is in good standing at that institution, but, in the case of a medical, dental or osteopathic student, including only the last four years of an accelerated, integrated program of study, (iii) is or will be a full-time student at the eligible institution, (iv) has agreed that all funds received under the loan will be used solely for tuition and other reasonable educational expenses and the insurance premium charged on the loan, (v) requires the borrower to pursue the course of study at the institution, and (vi) if a pharmacy student, has satisfactorily completed three years of training. Certain individuals who meet the same citizen, national or resident requirements and have previously received a loan insured under the Health Education Assistance Loan Program while a full-time student at an eligible institution may also receive a loan during the period before principal must be paid on the loan to repay interest due on the previous loans under the Health Education Assistance Loan Program.

### **Eligible Lender**

An eligible institution may apply to the Secretary of Health and Human Services to become a lender under the Health Education Assistance Loan Program. Various types of other organizations may qualify to be eligible lenders or holders of HEAL loans. Eligible lenders may include an agency or an instrumentality of a state; a bank, savings and loan association, credit union or insurance company which is subject to examination and supervision in its capacity as a lender by an agency of the United States or of the state in which it has its principal place of business; a pension fund approved by the Secretary of Health and Human Services; and certain other entities specified in the Public Health Service Act. If the Secretary of Health and Human Services approves the lender's application, the Secretary of Health and Human Services and the lender enter into an insurance contract whereby the Secretary of Health and Human Services agrees to insure each eligible HEAL loan held by the lender against the borrower's default, death, total and permanent disability, or bankruptcy.

An approved eligible lender can have either a standard insurance contract or a comprehensive insurance contract with the Secretary of Health and Human Services. A lender with a standard insurance contract must submit to the Secretary of Health and Human Services a borrower's application for each loan that the lender determines to be eligible for insurance. The Secretary of Health and Human Services notifies the lender whether or not the loan is insurable, the amount of the insurance and the expiration of the loan commitment. A lender with a comprehensive insurance contract may disburse a loan without submitting an individual borrower's application to the Secretary of Health and Human Services for initial approval. All eligible loans made by a lender with a comprehensive insurance contract before a specified date are automatically insured up to the aggregate amount stated in the insurance contract. The Secretary of Health and Human Services may limit, suspend or terminate the lender's eligibility under the Health Education Assistance Loan Program if the lender violates any provision of the Public Health Service Act, or agreements with the Secretary of Health and Human Services concerning the Health Education Assistance Loan Program.

## **Insurance Benefits**

The insurance provided by the Secretary of Health and Human Services covers 98% of the lender's losses on both unpaid principal and interest except to the extent that a borrower may have a defense on the loan (other than infancy). HEAL insurance is not unconditional. The Secretary of Health and Human Services insures HEAL loans on the implied representation of the lender that all the requirements for the initial insurability have been met. HEAL insurance is further conditioned upon compliance by all holders of the loan with all laws, regulations and other requirements. The insurance coverage on a loan under the Health Education Assistance Loan Program ceases to be effective after a 60-day default by the lender in the payment of the insurance premium charged by the Secretary of Health and Human Services.

Payment on an approved insurance claim generally covers interest that accrues through the date the claim is paid, except that the Secretary of Health and Human Services does not pay interest that accrues between the end of the period that a claim is required to be filed and the date the Secretary of Health and Human Services receives the claim, and, if a claim is returned to the lender for additional documentation necessary for approval of the claim, interest is only paid for the first 30 days following the return of the claim to the lender.

## **Authorized Amounts of HEAL Loans**

An eligible student borrower may borrow an amount for an academic year equal to the difference between the student's estimated cost of education for that period and the amount of other financial aid the student will receive for that period. An eligible non-student borrower may borrow in an amount that is no greater than the sum of the HEAL insurance premium plus the interest that is expected to accrue and must be paid on the borrower's HEAL loan during the period for which the new loan is intended. The total amount of HEAL loans made to any borrower which may be covered by federal insurance may not exceed \$20,000 in any academic year for a student enrolled in a school of, or in the field of, medicine, osteopathy, dentistry, veterinary medicine, optometry or podiatry, up to a maximum aggregate of \$80,000, and \$12,500 in any academic year for a borrower enrolled in a school of, or in the field, of pharmacy, public health, or chiropractic, or a graduate program in health administration or clinical psychology, up to an aggregate maximum of \$50,000.

## **Terms of HEAL Loans**

A loan made under the Health Education Assistance Loan Program must be made without security, except that in certain limited instances an endorsement may be required. The borrower may prepay the whole or any part of the HEAL loan at any time without penalty.

The principal amount of the HEAL loan must be repaid in installments over a period of not less than 10 years or more than 25 years, beginning not earlier than nine months nor later than twelve months (the "Grace Period") after the date on which (i) the borrower ceases to be a participant in an accredited internship or residency program of not more than four years in duration, or the borrower completes the fourth year of an accredited internship or residency program of more than four years in duration (for loans made on or after October 22, 1985), or the borrower ceases to carry, at an eligible institution, the normal full-time academic workload, or (ii) the borrower, who is a graduate student of an eligible institution, ceases to be a participant in a fellowship training program not in excess of two years or a participant in a full-time educational activity not in excess of two years, which is directly related to the health profession for which the borrower prepared at an eligible institution, as determined by the Secretary of Health and Human Services, and which may be engaged in by the borrower during such a two-year period which begins within twelve months after the completion of the borrower's participation in a program described in clause (i) of this sentence or prior to the completion of the borrower's participation in such program (for loans made on or after October 22, 1985), except during periods of deferment (described below). The repayment period of the loan may not exceed 33 years from the date of execution of the note or written agreement evidencing it. Principal and interest need not be paid, but interest accrues, during any period (i) during which the borrower is pursuing a full-time course of study at an eligible institution (or at an eligible institution under the FFEL Program), (ii) not in excess of four years during which the borrower is a participant in an accredited internship or residency program, (iii) not in excess of three years during which the borrower is a member of the Armed Forces of the United States, (iv) not in excess of three years during which the borrower is in service as a volunteer under the Peace Corps Act (22 USCA ss.2501 et seq.) or is a member of the National Health Service Corps, (v) not in excess of three years during which the borrower is in service as a full-time volunteer under Title I of the Domestic Volunteer Service Act of 1973, (vi) not in excess of three years for a borrower who has completed an accredited internship or residency training program in osteopathic general practice, family medicine, general internal medicine, preventive medicine or general pediatrics and who is practicing primary care, (vii) not in excess of one year, for borrowers who are graduates of schools of chiropractic, and (viii) not in excess of two years which is described in clause (ii) of the first sentence of this paragraph, and (ix) not in excess of three years during which the borrower is providing health care services to Indians through an Indian health program. The periods described in (i) through (viii) are "Deferment Periods." In certain circumstances a Deferment Period may not be included in determining the 25- and 33-year maximum repayment periods referred to above.

At least 30 and not more than 60 days before the commencement of the repayment period, the borrower must contact the lender to establish the precise term of repayment. The note must offer, in accordance with criteria prescribed by regulation of the Secretary of Health and Human Services, a graduated repayment schedule. The borrower may choose to repay under the graduated repayment schedule or a repayment schedule which provides for substantially equal installment payments. The Secretary of Health and Human Services has not promulgated regulations which set the criteria for a graduated repayment schedule.

Unless agreed otherwise, in writing, the total of the payments by a borrower during any year of the repayment period with respect to all loans of the borrower under the Health Education Assistance Loan Program should be at least equal to the annual interest on the outstanding principal, except during Deferment Periods.

### **Interest**

At the lender's option, the interest rate on the HEAL loan may be calculated on a fixed rate or on a variable rate basis. Whichever method is selected, that method must continue over the life of the loan, except where the loan is consolidated with another HEAL loan. Interest that is calculated on a fixed rate basis is determined for the life of the loan during the calendar quarter in which the loan is disbursed. It may not exceed the maximum rate determined for that quarter by the Secretary of Health and Human Services. Interest that is calculated on a variable rate basis varies every calendar quarter throughout the life of the loan as the market price of U.S. Treasury bills changes. For any quarter, it may not exceed the maximum rate determined by the Secretary of Health and Human Services. For each calendar quarter, the Secretary of Health and Human Services determines the general maximum annual HEAL interest rate by (i) determining the average of the bond equivalent rates reported for the 91-day U.S. Treasury bills auctioned for the preceding calendar quarter, (ii) adding 3 percentage points, and (iii) rounding that figure to the next higher one-eighth of one percent.

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

### **Insurance Premium**

The Secretary of Health and Human Services charges each lender an insurance premium to provide the insurance on HEAL loans at the time of disbursement. The Public Health Service Act authorizes the Secretary of Health and Human Services to charge an insurance premium based on the default rate of the educational institution and the borrower obtaining a co-signer on the loan or securing the debt with only the borrower's signature payable in advance. Presently, the insurance premium varies between 3% and 8%. The lender may pass along the cost of the insurance premium to the borrower by billing for it separately or deducting the amount from disbursed loan proceeds. Premiums are not refundable by the Secretary of Health and Human Services and need not be refunded by the lender to the borrower. Eligible lenders and eligible institutions may also be assessed additional risk based premiums based on the eligible entities default rate. The risk-based premium to be assessed shall range from 6 percent of the principal amount of the loan to 10 percent of the principal amount of the loan.

### **Consolidation of HEAL Loans**

If a lender or holder holds two or more HEAL loans made to the same borrower, the lender or holder and the borrower may agree to consolidate the loans into a single HEAL loan obligation evidenced by one promissory note if the consolidation will not result in terms less favorable to the borrower than if no consolidation had occurred and certain other requirements are satisfied.

### **Payments by Secretary of Health and Human Services**

The Secretary of Health and Human Services insures each lender for the losses which the lender may incur on insured loans in the event that a borrower dies, becomes permanently and totally disabled, files for bankruptcy or defaults on the loans. If a borrower dies or becomes disabled, the Secretary of Health and Human Services discharges the borrower's liability on the loan by repaying the amount owed. If the borrower defaults after a substantial collection effort, the Secretary of Health and Human Services pays the amount of the loss to the lender, and the borrower's loan is assigned to the Secretary of Health and Human Services.

## **Due Diligence**

A lender must follow certain procedures in making HEAL loans, and must exercise due diligence in the collection of a HEAL loan with respect to both a borrower and any endorser, in accordance with regulations of the Secretary of Health and Human Services. If these procedures are not followed or such due diligence is not exercised, the lender's ability to realize the benefits of the insurance provided by the Secretary of Health and Human Services may be adversely affected.

## **Claims**

For purposes of this paragraph, "default" means the persistent failure of the borrower to make a payment when due, or to comply with other terms of the note or other written agreement evidencing a loan under circumstances where the Secretary of Health and Human Services finds it reasonable to conclude that the borrower no longer intends to honor the obligation to repay. In the case of a loan repayable (or on which interest is payable) in monthly installment, this failure must have persisted for 120 days. In the case of a loan repayable (or on which interest is payable) in less frequent installments, this failure must have persisted for 180 days. Upon the occurrence of a default, the Secretary of Health and Human Services shall require the eligible lender or holder to commence and prosecute an action for default. If, for a particular loan, an automatic stay is imposed on collection activities by a bankruptcy court, and the lender receives written notification of the automatic stay prior to initiating legal proceedings against the borrower, the 120 or 180-day period does not include any period prior to the end of the automatic stay. Unless a lender has notified the Secretary of Health and Human Services that it has filed suit against a defaulted borrower, it must file a default claim with the Secretary of Health and Human Services within 30 days after a loan has been determined to be in default. Under various circumstances, a lender must commence and prosecute an action for default against a borrower before filing a default claim. A lender must file a death claim with the Secretary of Health and Human Services within 30 days after the lender determines that a borrower is dead. A lender must file a disability claim with the Secretary of Health and Human Services within 30 days after it is notified that the Secretary of Health and Human Services has determined a borrower to be totally and permanently disabled. A lender must file a bankruptcy claim with the Secretary of Health and Human Services within 10 days of the initial date of receipt of court notice or written notice from the borrower's attorney that the borrower has filed for bankruptcy under chapters 11 or 13 of the Bankruptcy Code, or has filed a complaint to determine the dischargeability of the HEAL loan under chapter 7 of the Bankruptcy Code.

## **Insurance Fund**

The federal government has established, pursuant to the Public Health Service Act, a student loan insurance fund which is available without fiscal year limitation to the Secretary of Health and Human Services for making payments in connection with the collection or default of loans insured under the Health Education Assistance Loan Program. If moneys in the fund are insufficient to make the payments on collection or default of insured loans, the Secretary of the Treasury may lend the fund such amounts as may be necessary to make the payments involved, subject to the Federal Credit Reform Act of 1990 (42 USC ss.661 et seq.). There can be no guaranty that the Secretary of the Treasury would make any such loan.

## **DESCRIPTION OF THE INDENTURE**

The notes will be issued under a discrete Indenture of Trust dated as of August 1, 2012, among the issuer, the indenture trustee and the eligible lender trustee.

On the closing date, the issuer will pledge the student loans and other assets of the trust estate to the indenture trustee under the indenture. The following is a summary of some of the provisions that will be contained in the indenture. This summary is not comprehensive and reference should be made to the indenture governing the issuance of your notes for a full and complete statement of its provisions.

All references to actions by holders of notes refer to actions taken by The Depository Trust Company on instructions from its participating organizations and all references to distributions, notices, reports and statements to holders of notes refer to distributions, notices, reports and statements to The Depository Trust Company or its nominee, as the registered holder of the notes, for distribution to holders under The Depository Trust Company's procedures. See "*DESCRIPTION OF THE CLASS A NOTES—Book-entry Registration*" in this offering memorandum. A copy of the indenture will be available from the indenture trustee upon request.

## **Parity and Priority of Lien**

The provisions of the indenture generally will be for the equal benefit, protection and security of the holders of all of the notes issued thereunder. However, the Class A notes issued under the indenture will have priority over the subordinate Class B notes issued thereunder. See "*CREDIT ENHANCEMENT—The Subordinate Class B Notes*" in this offering memorandum.

## **Sale of Student Loans Held in the Trust Estate**

The indenture trustee will, upon an order from the issuer and subject to the provisions of the indenture, take all actions reasonably necessary to effect the release of any student loans from the lien of the indenture if the release is for any of the following purposes:

- required sales to the Secretary of Education, the Secretary of Health and Human Services or guaranty agencies for claims payments related to defaulted student loans;
- required sales to subservicers for claims payments on student loans which have lost their guarantee due to servicing errors;
- to effect the release of any student loan from the lien of the indenture in connection with a repurchase, or substitution of a student loan held in the trust estate as described below under “—*Priority of Lien*” and “—*Pledge of Certain Rights*”;
- to effect the release of any student loan from the lien of the indenture if the release is in connection with a purchase of student loans pursuant to an optional purchase or auction of the student loans as provided in the indenture; or
- to effect the release of any student loan from the lien of the indenture in connection with a sale of such student loan if the proceeds of such sale are used to acquire student loans of a borrower for which there exists a student loan in the trust estate.

In addition, except upon the occurrence and during the continuance of an event of default, after the outstanding amount of the Class A notes has been reduced to zero, the issuer may also direct the indenture trustee to sell student loans pledged under the indenture as described in this paragraph. The issuer may sell student loans pledged under the indenture if and to the extent that one or more of the following conditions are met: (i) in connection with a consolidation or combination thereof with other student loans in the student loan account, (ii) for administrative purposes, if the cumulative amount of such sales, excluding sales described above under “—*Sale of Student Loans Held in the Trust Estate*” and parts (i) and (iii) of this paragraph, after the closing date do not exceed 20% of the value of the trust estate as of the closing date (provided that such 20% limit may be exceeded if the Class B parity percentage would not be less than 100% after taking into account such sale), if the sale will not, in the judgment of the issuer, impair the ability of the issuer to timely pay all debt service, or (iii) if the proceeds of such sale are used to redeem outstanding subordinate Class B notes provided that all of the outstanding subordinate Class B notes are to be redeemed (at a redemption price equal to the principal amount of the subordinate Class B notes being redeemed, plus accrued unpaid interest, if any, to the date of redemption (including payment of any Class B Noteholders’ Carry-Over Amount)). A sale permitted under this paragraph may be to a third party or to a different trust estate created by the issuer or created by any affiliate of the issuer. The price for any sale under parts (i) and (ii) of this paragraph is required to be for a price not less than par plus accrued interest. The price for any sale under part (iii) of this paragraph must provide proceeds which are at least sufficient to refund all of the outstanding subordinate Class B notes.

## **Priority of Lien**

The revenues and other money, student loans and other assets pledged under the indenture will be pledged under the indenture free and clear of any pledge, lien, charge or encumbrance that is prior to or of equal rank with the pledges and liens created by the indenture, except as otherwise expressly provided in the indenture. 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 student loans held in the trust estate that would be on a parity with, or prior to the lien or pledge of the indenture;
- 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 notes thereby secured being lost or impaired; and
- pay or cause to be paid, or make adequate provisions for the satisfaction and discharge, of all lawful claims and demands that if unpaid might by law be given precedence to or any equality with the indenture as a lien or charge upon the student loans held in the trust estate.

If any student loan is found to have been subject to a lien at the time such student loan was acquired, the issuer will cause such lien to be released, will purchase such student loan from the trust estate for a purchase price equal to its principal amount and interest accrued thereon, or will replace such student loan with another student loan with substantially identical characteristics that will be free and clear of liens at the time of the replacement.

## Representations and Warranties of the Issuer

The issuer will represent and warrant that:

- it is duly authorized under the laws of the State of Texas to create and issue its notes and to execute and deliver the indenture and to pledge collateral under the indenture to the payment of its notes;
- all necessary action for the creation and issuance of its notes and the execution and delivery of the indenture has been duly and effectively taken;
- its notes in the hands of the holders will be valid and enforceable special limited obligations of the issuer secured by and payable solely from the trust estate;
- it is a non-profit corporation duly organized and validly existing in good standing under the laws of the State of Texas and has the power to own its assets and to transact the business in which it presently engages; and
- it is an organization described in Section 501(c)(3) of the Internal Revenue Code, is not a “private foundation” as defined in Section 509(a) of the Internal Revenue Code, and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code.

## Covenants

The issuer will covenant to file financing statements and continuation statements in any jurisdiction necessary to perfect and maintain the security interest granted by the issuer under the indenture.

The issuer will be required to keep full and proper books of records and accounts, in which full, true, and proper entries will be made of all dealings, business, and affairs of the issuer that relate to the notes.

The issuer will covenant that all revenues received on the student loans held under the indenture once identified by the issuer, the master servicer or a subservicer, as applicable, as such shall be transferred to the indenture trustee for deposit into the collection account within two (2) business days of such identification.

The indenture will provide that upon written request of the indenture trustee and during regular business hours, the issuer will permit the indenture trustee or its agents, accountants and attorneys, to examine and inspect the property, books of account, records, reports and other data relating to the student loans held in the trust estate, and will furnish the indenture trustee such other information as it may reasonably request.

The issuer will covenant to cause an annual audit to be made by an independent registered public accounting firm and file two copies of the audit and a certificate of an authorized officer of the issuer stating that to the best of such person’s knowledge, no default exists under the indenture with the indenture trustee within 120 days of the close of each fiscal year; provided, however, if the issuer does not receive through no fault of its own its annual audit within 120 days of the close of any fiscal year from its independent registered public accounting firm, the issuer covenants and agrees to use reasonable efforts to cause such annual audit to be provided as soon as possible thereafter. The indenture trustee will not be obligated to review or otherwise analyze those audits. Such audits will be made available to holders of notes upon written request to the indenture trustee.

The issuer will covenant that it will deliver all student loans pledged under the indenture to a custodian to be held on behalf of the indenture trustee for the benefit of the holders of notes pursuant to a custodian agreement. The indenture trustee will not be responsible or liable for the safekeeping of any student loans held by a custodian or for the acts or omissions of a custodian. *See “REGARDING THE STUDENT LOANS—Custodians.”*

The issuer will covenant to at all times cause the FFELP loans held in the trust estate to be held by an eligible lender under the Higher Education Act. The issuer will covenant to at all times cause the HEAL loans held in the trust estate to be held by an eligible lender under the Public Health Service Act.

The issuer will covenant in the indenture to undertake reasonable collection efforts with respect to any rejected claim student loans in accordance with customary industry standards and practices. Rejected claim student loans refer to defaulted FFELP student loans pledged under the indenture for which the related guaranty agency has rejected a claim for the guarantee payment and defaulted HEAL loans pledged under the indenture for which the Secretary of Health and Human Services has rejected a claim for the insurance payment or the issuer has determined that a successful prosecution of an action for default under the requirements of the Public Health

Service Act cannot practically be obtained. These collection efforts may be conducted on behalf of the issuer by the master servicer, any subservicer or any third party collection agents appointed by the issuer or the master servicer. All collections will be required to be conducted in material compliance with all applicable federal, state and local laws, including any applicable consumer protection laws. Any party serving as collection agent that successfully collects any amounts from borrowers on rejected claim student loans may be compensated for such collection efforts by deducting and retaining a customary percentage of any amounts so collected from borrowers that is approved by the issuer with all remaining amounts collected being promptly deposited to the collection account under the indenture, regardless of whether any such borrower payments result in a reduction in the outstanding principal balance of any such rejected claim student loans. The issuer, or its designated agent will be permitted to serve as custodian with respect to any rejected claim student loans. Any such compensation to a party serving as collection agent will not be deemed to be pledged revenue under the indenture and will not be deemed to be a program expense payable under the indenture. The issuer, or its designated agent, will be permitted to reschedule, revise, defer or otherwise compromise payments or take other reasonable actions with respect to student loans that are rejected claim student loans in connection with maximizing the recovery on such student loans. The issuer, or its designated agent, will also be permitted to cease collection and servicing efforts with respect to any student loans when and if the issuer determines that the probable costs of collection and servicing exceed the expected proceeds of collection.

The issuer will notify the indenture trustee if the amount of program expenses consisting of Ancillary Subservicing Fees and Extraordinary Indenture Trustee Expenses that are due and payable exceed the amounts that that can be properly paid in any fiscal year as a result of the limitations described in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Monthly Issuer Fees.*” In such an event, to the extent not otherwise paid by the master servicer from its general funds, the indenture trustee will: (a) continue to make all payments of Ancillary Subservicing Fees pursuant to the indenture but will offset such payments by reducing the amount of the Administration Fee paid to the master servicer on each following applicable expense payment date by an amount equal to the Ancillary Subservicing Fee payments made in excess of such limitation and (b) be entitled to (i) reduce the amount of the Administration Fee paid to the master servicer on each following applicable expense payment date during such fiscal year by a total amount not to exceed the Extraordinary Indenture Trustee Expenses that could have otherwise be paid in such fiscal year pursuant to limitations described in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Monthly Issuer Fees* if no Ancillary Subservicing Fees had been paid and (ii) deposit such offset amounts to the distribution account for the payment of such Extraordinary Indenture Trustee Expenses that are due and payable.

The issuer will covenant in the indenture to notify Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business, of any action proposed to be taken by the issuer under the indenture that would require a Rating Confirmation at least ten days prior to the occurrence of such action proposed to be taken by the issuer (or, if ten days’ advance notice is impracticable, as much advance notice as is practicable).

### **Pledge of Certain Rights**

Under the indenture, the issuer has assigned to the indenture trustee for the benefit of the holders of notes all of the issuer’s right, title and interest in each student loan purchase agreement and each subservicing agreement. Certain of the pledged student loans were originally acquired by the issuer pursuant to student loan purchase agreements entered into with third party sellers that do not contract with the master servicer for administrative services. Under the terms of some of the student loan purchase agreements, the applicable seller was required to make representations, warranties and covenants with respect to the student loans sold. Generally, the selling lender was required to make representations and warranties that each student loan is insured by the Department of Education, insured under the Public Health Service Act or guaranteed by a guarantee agency, as applicable, and that each student loan is in compliance with the Higher Education Act or the Public Health Service Act, as applicable. Although the specific terms of the student loan purchase agreements vary, each student loan purchase agreement generally provides that if there is a material breach of a representation or warranty that results in a student loan being denied the guaranty by the guarantee agency, as applicable, or if the value of the student loan is materially affected as a result of such breach, the applicable seller is required to cure, replace or repurchase the student loans or to indemnify the indenture trustee for the loss.

In addition, the master servicer has entered into separate subservicing agreements with each of the subservicers to service the student loans held in the trust estate. See “*REGARDING THE STUDENT LOANS—Description of Subservicers.*” The master servicer has granted the issuer (which has subsequently granted to the indenture trustee) the right to directly enforce any rights of the master servicer set forth in any subservicing agreement. Although the specific terms of the subservicing agreements vary, each subservicing agreement generally provides that if a serviced student loan is denied the guaranty by the guarantee agency as a direct result of a servicing error or origination error by the subservicer, as applicable, or if the student loan is materially affected as a result of a servicing error or origination error, the applicable subservicer is required to cure, replace or repurchase the student loans or to indemnify the indenture trustee for the loss.

As described above under “*—Priority of Lien,*” if any student loan is found to have been subject to a lien at the time such student loan was acquired, the issuer will cause such lien to be released, will purchase such student loan from the trust estate for a

purchase price equal to its principal amount and interest accrued thereon, or will replace such student loan with another student loan with substantially identical characteristics that will be free and clear of liens at the time of the replacement.

### **Reporting Requirements**

Under the indenture, the issuer will covenant to provide, no later than the fifth (5<sup>th</sup>) day after each distribution date, to the indenture trustee (with a copy to the rating agencies) for the indenture trustee to, within five (5) days of receipt, forward to The Depository Trust Company as the registered owner of the notes and post to the indenture trustee's internet website, which will initially be located at [www.usbank.com/abs](http://www.usbank.com/abs), a statement setting forth information with respect to its notes and the student loans held in the trust estate as of the most recent distribution date, including the following to the extent applicable:

- the amount of principal payments made with respect to each class of notes;
- the amount of interest payments made with respect to each class of notes;
- the total amount of interest accrued but not paid with respect to any class of notes;
- the principal balance of the student loans pledged under the indenture as of the close of business on the last day of the related collection period;
- the Pool Balance of student loans as of the close of business on the last day of the related collection period;
- the aggregate outstanding principal amount of each class of notes;
- the pool factor for the Class A notes and the subordinate Class B notes;
- the Class A parity percentage as of the close of business on the last day of the related collection period;
- the Class B parity percentage as of the close of business on the last day of the related collection period;
- the interest rate for each class of notes, indicating how such interest rate is calculated;
- the amount of the Administration Fees and any Additional Fees allocated to the master servicer as of the close of business on the last day of the related collection period;
- the amount of the subservicing fees and other amounts allocated to the subservicers as of the close of business on the last day of the related collection period;
- the amount of fees and expenses of the indenture trustee, the eligible lender trustee and the rating agencies, if any, allocated as of the close of business on the last day of the related collection period;
- the amount of Available Funds received during the preceding collection period relating to the student loans, including the amount of borrower interest payments, borrower principal payments and special allowance payments;
- the amount of the payment attributable to moneys in the reserve account, the amount of any other withdrawals from the reserve account and the balance of the reserve account and the Reserve Account Requirement as of the close of business on the last day of the related collection period;
- the balance of each trust account under the indenture as of the close of business on the last day of the preceding collection period;
- the aggregate amount, if any, paid for student loans purchased from the trust estate during the preceding collection period;
- the number and principal amount of student loans that are delinquent or for which claims have been filed with a guarantee agency or the Secretary of Health and Human Services as of the close of business on the last day of the related collection period;



- the value of the trust estate (with the pledged student loans being valued at an amount equal to 100% of the unpaid principal amount thereof, accrued but unpaid interest, interest benefit payments and special allowance payments, if applicable, less the unguaranteed portion of student loans in claims status) and the outstanding principal amount of any notes issued under the indenture as of the close of business on the last day of the related collection period;
- the number and percentage by dollar amount of (i) initial federal reimbursement claims for student loans held in the trust estate and (ii) rejected federal reimbursement claims for student loans held in the trust estate as of the close of business on the last day of the related collection period;
- principal balance of student loans held in the trust estate in each of the following statuses: (i) forbearance, (ii) deferment, (iii) claims, (iv) in-school, (v) grace, and (vi) repayment as of the close of business on the last day of the related collection period;
- the principal balance of student loans held in the trust estate by loan type as of the close of business on the last day of the related collection period;
- the principal balance of student loans by school type as of the close of business on the last day of the preceding collection period;
- the rebate fee paid to the Secretary of the Department of Education during the preceding collection period;
- the Class B Noteholders' Interest Cap for such distribution date and the calculation thereof; and
- the Class B Noteholders' Carry-Over Amount, if any, for such distribution date and the calculation thereof.

A copy of those reports may be obtained by any holder of notes by a written request to the indenture trustee.

#### **Enforcement of Master Servicing Agreement**

The issuer will diligently enforce all terms, covenants and conditions of the master servicing agreement, including the prompt payment of all amounts due from the master servicer under the master servicing agreement. The issuer will not permit the release of the obligations of the master servicer under the master servicing agreement except in conjunction with permitted amendments or modifications and the issuer will not waive any default by the master servicer under the master servicing agreement without the written consent of the indenture trustee. The issuer will not consent or agree to or permit any amendment or modification of the master servicing agreement that will in any manner materially adversely affect the rights or security of the holders of notes. So long as the Class A notes are outstanding under the indenture, a Rating Confirmation must be obtained with respect to any amendment or modification to the master servicing agreement; provided that, the master servicing agreement may be amended at any time upon the mutual written consent of the parties thereto to cure any ambiguity, defect, or omission in the agreement without a Rating Confirmation if such amendment does not materially adversely affect the rights or security of the holders of notes upon receipt of an opinion of counsel that any such amendment or modification will not materially adversely affect the rights or security of the holders and upon prior written notice of such amendment or modification to each rating agency.

#### **Additional Covenants With Respect to the Higher Education Act and the Public Health Service Act**

The issuer will verify that the indenture trustee is, or replace the indenture trustee with, an eligible lender under the Higher Education Act and the Public Health Service Act, and will acquire or cause to be acquired student loans only from an eligible lender.

The issuer will be responsible, directly or through the master servicer, for each of the following actions with respect to the Higher Education Act and the Public Health Service Act, as applicable:

- dealing with the Secretary of Education and the Secretary of Health and Human Services, as applicable, with respect to the rights, benefits and obligations under the certificates of insurance, the contract of insurance, insurance with respect to HEAL loans and dealing with the guarantee agencies with respect to the rights, benefits and obligations under the guarantee agreements with respect to the FFELP loans held in the trust estate;
- diligently enforcing, and taking all reasonable steps necessary or appropriate for the enforcement of all terms, covenants and conditions of all student loans held in the trust estate and agreements in connection with the student loans, including the prompt payment of all principal and interest payments and all other amounts due under those student loans;

- causing the student loans held in the trust estate to be serviced by entering into a master servicing agreement with the master servicer for the collection of payments made for, and the administration of the accounts of, the student loans;
- complying with, and causing all of its officers, directors, employees and agents to comply, with the provisions of the Higher Education Act and any regulations or rulings thereunder and the Public Health Service Act and any regulations or rulings thereunder, as applicable, with respect to the student loans held in the trust estate; and
- causing the benefits of the guarantee agreements, the interest subsidy payments and the special allowance payments to flow to the indenture trustee.

### **Continued Existence; Successor**

The issuer will preserve and keep in full force and effect its existence, rights and franchises as a Texas nonprofit corporation duly organized and validly existing in good standing under the laws of Texas. The issuer will not sell, transfer or otherwise dispose of all or substantially all of its assets, consolidate with or merge into any corporation or other entity, or permit one or more other corporations or entities to consolidate with or merge with it. Those restrictions do not apply to a transfer of student loans that is made in connection with a discharge of the indenture, a permitted student loan sale or to a transaction where the transferee or the surviving or resulting corporation or entity, if other than the issuer, by proper written instrument for the benefit of the indenture trustee, irrevocably and unconditionally assumes the obligation to perform and observe the agreements and obligations of the issuer under the indenture and, so long as the Class A notes or the subordinate Class B notes are outstanding, a Rating Confirmation is obtained with respect to such transaction.

Notwithstanding the foregoing, the issuer will covenant and agree in the indenture that it will not consolidate with or merge into another entity or permit one or more other corporations or entities to consolidate with or merge into it unless the surviving or resulting corporation or entity is an organization described in Section 501(c)(3) of the Internal Revenue Code, is not a “private foundation” as defined in Section 509(a) of the Internal Revenue Code, and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code.

### **Events of Default**

Each of the following events will be defined as an event of default:

- default in the due and punctual payment of the principal of or interest on any of the Class A notes issued thereunder when due;
- if no Class A notes are outstanding under the indenture, default in the due and punctual payment of the principal of or the Class B Noteholders’ Interest Distribution Amount on any of the subordinate Class B notes issued thereunder when due;
- default by the issuer in the performance or observance of any other of the covenants, agreements or conditions contained in the indenture, and continuation of such default for a period of 90 days after written notice thereof by the indenture trustee to the issuer; and
- the occurrence of an event of bankruptcy with respect to the issuer.

In no event shall the failure to pay Class B Noteholders’ Carry-Over Amount (other than from Available Funds available to be used for such purpose in accordance with the terms of the indenture) be an event of default under the indenture.

The indenture trustee will give any notice with respect to any default to the issuer if requested to do so in writing by the holders of at least a majority of the principal amount of the highest priority notes at the time outstanding.

### **Remedies on Default**

**Possession of Trust Estate.** Upon the happening and continuance of any event of default under the indenture, the indenture trustee will have the right to take possession of any portion of the trust estate that may be in the custody of others, and all property comprising the trust estate, and will have the right to hold, use, operate, manage and control those assets. The indenture trustee also will have the right, in the name of the issuer or otherwise, to 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, including the payment of all fees and program expenses payable under the indenture, and all payments that may be made as just and reasonable compensation for its own

services, and for the services of its attorneys, agents, and assistants, and any other amounts owed to it under the indenture, the indenture trustee will apply the rest of the money received by the indenture trustee as follows:

- (1) if the principal of none of the notes under the indenture shall have become due, as described in this offering memorandum under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions;*” or
- (2) if the principal of any of the notes under the indenture shall have become due by declaration of acceleration or otherwise,
  - *first*, to the holders of Class A notes, the Class A Noteholders’ Interest Distribution Amount;
  - *second*, to the holders of Class A notes, an amount sufficient to reduce the outstanding principal amount of the Class A notes to zero;
  - *third*, to the holders of subordinate Class B notes, the Class B Noteholders’ Interest Distribution Amount;
  - *fourth*, to the holders of subordinate Class B notes, an amount sufficient to reduce the outstanding principal amount of the subordinate Class B notes to zero;
  - *fifth*, to the holders of subordinate Class B notes, the Class B Noteholders’ Carry-Over Amount and interest thereon; and
  - *sixth*, to the residual certificateholder, any remaining amounts.

***Sale of Trust Estate.*** Upon the happening of any event of default under the indenture and if the principal of all the outstanding notes issued under the indenture shall have been declared due and payable, then the indenture trustee will have the right to sell the trust estate to the highest bidder in accordance with the requirements of applicable law. In addition, the indenture trustee will have the right to proceed to protect and enforce the rights of the indenture trustee or the holders of the Class A notes and, after payment in full of all of the Class A notes, holders of the subordinate Class B notes, in the manner as counsel for the indenture trustee may advise, whether for the specific performance of any covenant, condition, agreement or undertaking contained in the indenture, or in aid of the execution of any power therein granted, or for the enforcement of such other appropriate legal or equitable remedies as may in the opinion of such counsel, be more effectual to protect and enforce the rights aforesaid. The indenture trustee will be required to take any of those actions if requested to do so in writing by the holders of at least a majority of the principal amount of the highest priority notes outstanding under the indenture.

***Appointment of Receiver.*** If an event of default occurs under the indenture, and all of the outstanding notes under the indenture have been declared due and payable, and if any judicial proceedings are commenced to enforce any right of the indenture trustee or of the holders of notes issued under the indenture, then as a matter of right, the indenture trustee shall be entitled to the appointment of a receiver for the trust estate.

***Accelerated Maturity.*** If an event of default has occurred and is continuing under the indenture, the indenture trustee will have the right to declare, or upon the written direction by the holders of at least a majority of the principal amount of the highest priority notes then outstanding under the indenture, will be required to declare, the principal of all then outstanding notes issued under the indenture, and the interest thereon (including Class B Noteholders’ Carry-Over Amount, if any), if not previously due, immediately due and payable. A declaration of acceleration upon the occurrence of an event of default under the indenture other than a default in making payments when due or an event of default relating to bankruptcy of the issuer will require the consent of all of the holders of the Class A notes then outstanding under the indenture (or, after payment in full of all of the Class A notes, the consent of all of the holders of the subordinate Class B notes then outstanding).

***Direction of Indenture Trustee.*** If an event of default occurs under the indenture, the holders of at least a majority of the principal amount of the highest priority notes then outstanding under the indenture will have the right to direct and control the indenture trustee with respect to any proceedings for any sale of any or all of the trust estate, or for the appointment of a receiver. The holders of notes will not have the right to cause the indenture trustee to institute any proceedings that, in the indenture trustee’s opinion, would be unjustly prejudicial to non-assenting holders of notes outstanding under the indenture.

***Right to Enforce in Indenture Trustee.*** No holder of any note issued under the indenture shall have any right as a holder to institute any suit, action or proceedings for the enforcement of the provisions of the indenture or for the appointment of a receiver or for any other remedy under the indenture. All rights of action under the indenture will be vested exclusively in the indenture trustee, unless and until the indenture trustee fails to institute an action or suit after

- the holders of at least 25% of the principal amount of the Class A notes outstanding under the indenture (or, after payment in full of all of the Class A notes, the holders of at least 25% of the principal amount of the subordinate Class B notes then outstanding) shall have previously given to the indenture trustee written notice of a default under the indenture, and of the continuance thereof,
- the holders of at least 25% of the principal amount of the Class A notes outstanding under the indenture (or, after payment in full of all of the Class A notes, the holders of at least 25% of the principal amount of the subordinate Class B notes then outstanding) shall have made a written request upon the indenture trustee and the indenture trustee shall have been afforded reasonable opportunity to institute an action, suit or proceeding in its own name, and
- the indenture trustee shall have been offered indemnity and security satisfactory to it against the costs, expenses, and liabilities to be incurred on an action, suit or proceeding in its own name.

In addition, the indenture trustee and the holders of notes will covenant that they will not at any time institute against the issuer any bankruptcy, reorganization or other proceeding under any federal or state bankruptcy or similar law.

***Waivers of Events of Default.*** The indenture trustee will have the discretion to waive any event of default under the indenture and rescind any declaration of acceleration of the notes due under the indenture. The indenture trustee will be required to waive an event of default upon the written request of the holders of at least a majority of the principal amount of the highest priority notes then outstanding under the indenture. The indenture will provide that a waiver of any event of default in the payment of the principal or interest due on any obligation issued under the indenture may not be made unless prior to the waiver or rescission, provisions are made for payment of all arrears of interest or all arrears of payments of principal, and all expenses incurred by the indenture trustee in connection with such default. Under the indenture, a waiver or rescission of one default will not affect any subsequent or other default, or impair any rights or remedies consequent to any subsequent or other default.

***Undertaking for Costs.*** Under the terms of the indenture the issuer and the indenture trustee will agree, and each holder by acceptance of a note will be deemed to have agreed, that any court may, in its discretion, require, in any suit for the enforcement of any right or remedy under the indenture, or in any suit against the indenture trustee for any action taken or omitted by it as indenture trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may, in its discretion, assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions described in this paragraph will not apply to (i) any suit instituted by the indenture trustee, (ii) any suit instituted by any holder of a Class A note, or group thereof, in each case holding in the aggregate more than ten percent (10%) of the outstanding principal amount of the Class A notes (or, after payment in full of all of the Class A notes, any suit instituted by any holder of a subordinate Class B note, or group thereof, in each case holding in the aggregate more than ten percent (10%) of the outstanding principal amount of the subordinate Class B notes, or (iii) any suit instituted by any holder of a Class A note for the enforcement of the payment of the principal of or interest on any Class A note in accordance with the provision described above under "*—Right to Enforce in Indenture Trustee*" (or, after payment in full of all of the Class A notes, any suit instituted by any holder of a subordinate Class B note for the enforcement of the payment of the principal of or interest on any subordinate Class B note in accordance the provision described above under "*—Right to Enforce in Indenture Trustee*").

## **The Indenture Trustee**

***Acceptance of Trust.*** Under the indenture, the indenture trustee will agree to accept the trusts imposed upon it by the indenture, and to perform those trusts, but only upon and subject to the following terms and conditions:

- Except during the continuance of an event of default, the indenture trustee undertakes to perform only those duties as are specifically set forth in the indenture. The indenture trustee will not be liable for its actions or omissions under the indenture except for its own negligence or willful misconduct. In the absence of bad faith or negligence on its part, the indenture trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed in the indenture, upon certificates or opinions furnished to the indenture trustee and conforming to the requirements of the indenture.
- In case an event of default has occurred and is continuing, the indenture trustee, in exercising the rights and powers vested in it by the indenture, will use the same degree of care and skill in their exercise as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs.
- Before taking any action under the indenture requested by holders of notes, the indenture trustee may require that it be furnished an indemnity bond or other indemnity and security satisfactory to it by those holders for the

reimbursement of all expenses it may incur and to protect it against liability arising from any action taken by the indenture trustee except liability which results from the negligence or willful misconduct of the indenture trustee and negligence with respect to money deposited and applied pursuant to the indenture, by reason of any action so taken by the indenture trustee.

***Indenture Trustee May Act through Agents.*** The indenture 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. All reasonable costs incurred by the indenture trustee and all reasonable compensation to all such persons as may reasonably be employed in connection with the trusts of the indenture will be paid by the issuer.

***Duties of Indenture Trustee.*** Other than the duty of the indenture trustee to make payment on notes when due and pursue the remedy of acceleration for events of default, the indenture trustee generally will be under no obligation or duty to perform any act at the request of holders of notes issued under the indenture or to institute or defend any suit to protect the rights of the holders of notes issued under the indenture unless properly indemnified and provided with security to its satisfaction. The indenture trustee will not be required to take notice of any event of default (other than a default on the payment of interest or principal) under the indenture unless and until it shall have been specifically notified in writing of the event of default by the holders of a majority of the principal amount of the highest priority of notes outstanding issued under the indenture or an authorized representative of the issuer.

However, the indenture trustee may begin suit, or appear in and defend suit, execute any of the trusts, enforce any of its rights or powers, or do anything else in its judgment proper, without assurance of reimbursement or indemnity. In that case the indenture trustee will be reimbursed or indemnified by the holders of the notes requesting that action, if any, or the issuer in all other cases, for all fees, costs, expenses, liabilities, outlays, counsel fees and other reasonable disbursements properly incurred, unless such disbursements are adjudicated to have resulted from the negligence or willful misconduct of the indenture trustee.

If the issuer or the holders of notes, as appropriate, fail to make such reimbursement or indemnification, the indenture trustee may reimburse itself from any money in its possession under the provisions of the indenture. In addition, the issuer will indemnify the indenture trustee against any and all liability or expense (including reasonable attorneys' fees and expenses) incurred by the indenture trustee in connection with the administration of the indenture and the performance of its duties thereunder or under the related transaction documents. However, the issuer is not required to reimburse any expense or indemnify against any liability or expense incurred by the indenture trustee through the indenture trustee's own negligence or willful misconduct.

***Compensation of Indenture Trustee.*** The indenture trustee will receive compensation for all services rendered by it under the indenture, and also all of its reasonable expenses, charges, and other disbursements. The indenture trustee, in its individual or other capacity, may become the owner or pledgee of notes and may otherwise deal with the issuer, with the same rights it would have if it were not the indenture trustee. The indenture trustee, upon becoming the owner or pledgee of notes, will promptly notify each rating agency of such event after the responsible officer under the indenture of the indenture trustee has actual knowledge of such event.

***Resignation of Indenture Trustee.*** The indenture trustee may resign and be discharged from the trust created by the indenture by giving to the issuer written notice specifying the date on which such resignation is to take effect. A resignation will take effect on the day specified in such notice only if a successor indenture trustee shall have been appointed pursuant to the provisions of the indenture and is qualified to be the indenture trustee under the requirements of the provisions of the indenture.

***Removal of Indenture Trustee.*** The indenture trustee may be removed at any time

- by the holders of a majority of the principal amount of the highest priority notes then outstanding under the indenture;
- by the issuer for cause or upon the sale or other disposition of the indenture 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 30 days.

In the event the indenture trustee is removed, removal shall not become effective until

- a successor indenture trustee shall have been appointed; and
- the successor indenture trustee has accepted that appointment.

***Successor Indenture Trustee.*** If the indenture trustee resigns, is removed, dissolved or otherwise is disqualified to act or is incapable of acting, or in case control of the indenture trustee is taken over by any public officer or officers, a successor indenture

trustee may be appointed by the issuer. In this case the issuer will cause notice of the appointment of a successor indenture trustee to be mailed to the holders of the notes at the address of each holder appearing on the note registration books.

Every successor indenture trustee

- 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;
- will have a reported capital and surplus of not less than \$50,000,000;
- will be authorized under the law to exercise corporate trust powers, be subject to supervision or examination by a federal or state authority; and
- will be an eligible lender under the Higher Education Act and the Public Health Service Act, so long as such designation is necessary to maintain guarantees and federal benefits under the Higher Education Act, with respect to the FFELP loans held in the trust estate and the insurance benefits under the Public Health Service Act with respect to HEAL loans held in the trust estate, as applicable.

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

## **Supplemental Indentures**

***Supplemental Indentures Not Requiring Consent of Holders.*** The issuer and the indenture trustee may, without the consent of or notice to any of the holders of any notes outstanding under the indenture, enter into any indentures supplemental to the indenture for any of the following purposes:

- to cure any ambiguity or defect or omission in the indenture;
- to grant to or confer upon the indenture trustee for the benefit of the holders of notes any additional benefits, rights, remedies, powers or authorities;
- to subject to the indenture additional revenues, properties or collateral;
- to modify, amend or supplement the indenture or supplemental indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute or to permit the qualification of the notes 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 supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- to evidence the appointment of a separate or co-indenture trustee or a co-registrar or transfer agent or the succession of a new indenture trustee under the indenture, or any additional or substitute subservicer;
- to add provisions to or to amend provisions of the indenture as may, in the opinion of counsel, be necessary or desirable to assure implementation of the issuer's student loan program in conformance with the Higher Education Act, the Public Health Service Act or other laws applicable to the student loans, if along with such supplemental indenture there is filed a note counsel's opinion to the effect that the addition or amendment of such provisions will in no way impair the existing security of the holders of notes;
- to add such provisions to or to amend such provisions of the indenture as may, in the opinion of counsel, be necessary or desirable to assure that the issuer (i) maintains its status as an organization described in Section 501(c)(3) of the Internal Revenue Code, (ii) does not become a "private foundation" as defined in Section 509(a) of the Internal Revenue Code, and (iii) is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code, if along with such supplemental indenture there is filed an opinion of counsel to the effect that the

addition or amendment of such provisions will in no way impair the existing security of the holders of notes and the issuer first obtains a Rating Confirmation with respect to such action;

- to make any change as shall be necessary to obtain and maintain for any of the notes issued under the indenture the then current rating with respect to such notes from a nationally recognized rating service, provided that the indenture trustee receives from the issuer a compliance certificate and an opinion of counsel confirming that such changes are not to the prejudice of any of the holders of notes;
- to make any changes necessary to comply with the Higher Education Act and the regulations thereunder, the Public Health Service Act and the regulations thereunder or the Internal Revenue Code and the regulations promulgated thereunder;
- to create any additional funds or accounts under the indenture deemed by the issuer or indenture 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 investment securities in all or any portion of any reserve account, so long as such action shall not adversely affect the ratings on any of the notes issued under the indenture; or
- to amend the indenture, with prior notice to the rating agencies, for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the indenture or of modifying in any manner the rights of the holders of notes under the Indenture; provided, however, that such action will not, as evidenced by an opinion of counsel of a nationally recognized law firm, adversely affect in any material respect the interests of any holder of notes; and provided, further, that such amendment shall not result in or cause a significant change to the permissible activities of the issuer.

***Supplemental Indentures Requiring Majority Consent of Holders.*** Any amendment of the indenture other than those listed above under “—*Supplemental Indentures Not Requiring Consent of Holders*” and listed below under “—*Supplemental Indentures Requiring Consent of Each Holder of an Affected Note*” must be approved by the holders of a majority of the principal amount of each class of affected notes then outstanding under the indenture.

***Supplemental Indentures Requiring Consent of Each Holder of an Affected Note.*** None of the changes described below may be made in a supplemental indenture without the consent of the holder of each affected note then outstanding under the indenture:

- an extension of the maturity date of the principal of or the interest on any note, or
- a reduction in the principal amount of any note or the rate of interest thereon or any Class B Noteholders’ Carry-Over Amount relating thereto, or
- a privilege or priority of any note under the indenture over any other note (except as otherwise provided in the indenture), or
- a reduction in the aggregate principal amount of the notes required for consent to a supplemental indenture,
- the creation of any lien other than a lien ratably securing all of the notes at any time outstanding under the indenture (except as otherwise provided in the indenture); or
- the issuance of additional notes or obligations secured under the indenture.

#### **Trust Irrevocable**

The trust created by the terms and provisions of the indenture will be irrevocable until the principal of and the interest due on all notes (including the Class B Noteholders’ Carry-Over Amount, if any) are fully paid or provision is made for its payment, as provided in the indenture.

#### **Satisfaction of Indenture**

If the holders of the notes are paid all the principal of and interest due on notes (including the Class B Noteholders’ Carry-Over Amount, if any), at the times and in the manner stipulated in the indenture, then the pledge of the trust estate will thereupon

terminate and be discharged. The indenture trustee will execute and deliver all necessary instruments to evidence the discharge and satisfaction, and the indenture trustee will pay all money held by it under the indenture to the party entitled to receive it under the indenture.

Notice of any prospective termination, specifying the distribution date for payment of the final distribution and requesting the surrender of the notes for cancellation, will be given promptly by the indenture trustee by letter to holders of notes mailed not less than 10 nor more than 15 days preceding the specified distribution date stating (i) the distribution date upon which final payment of the notes will be made, (ii) the amount of any such final payment, and (iii) the location for presentation and surrender of the notes. Payment of the final distribution that will be made only upon presentation and surrender of the notes at the corporate trust office of the indenture trustee specified in the notice.

### **Obligations are Special, Limited Obligations**

The notes are special, limited obligations of the issuer. The notes are payable solely from and secured solely by the trust estate created under the indenture and described herein. The notes are not general obligations of the issuer. None of the indenture trustee, the issuer, the master servicer, or any of their respective agents, officers, directors, employees, successors or assigns will be personally liable for the payment of the principal of or interest (including any Class B Noteholders' Carry-Over Amount) on the notes issued under the indenture or for the agreements of the issuer contained in the indenture.

### **FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE CLASS A NOTES**

Notwithstanding anything to the contrary herein, except as necessary to comply with securities laws, each prospective investor (and each of their respective employees, representatives or other agents) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of the transactions described herein and all materials of any kind (including opinions or other tax analyses) that are provided to them relating to such U.S. tax treatment and U.S. tax structure under applicable U.S. federal, state or local tax law.

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THE ADVICE BELOW WAS NOT WRITTEN AND IS NOT INTENDED TO BE USED AND CANNOT BE USED BY ANY TAXPAYER FOR PURPOSES OF AVOIDING UNITED STATES FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED. THE ADVICE IS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION. EACH TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

The foregoing disclaimer is provided to satisfy obligations under Circular 230 governing standards of practice before the Internal Revenue Service.

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The following is a general discussion of certain U.S. federal income tax consequences associated with the ownership of the Class A notes. Except where noted, it deals only with those holders who hold the Class A notes as capital assets. It does not deal with special situations, including but not limited to those of certain financial institutions, insurance companies, U.S. expatriates, dealers in securities or foreign currencies, persons holding Class A notes as part of a hedge or other integrated transaction, U.S. Holders (as defined below) whose functional currency is not the U.S. dollar, partnerships or other entities classified as partnerships for U.S. federal income tax purposes, entities that are tax-exempt for U.S. federal income tax purposes, retirement plans, individual retirement accounts, tax-deferred accounts, or persons subject to the alternative minimum tax.

The following summary does not address specific state or local or non-U.S. tax consequences or U.S. federal tax consequences (e.g., estate or gift tax) other than those pertaining to the income tax.

This discussion is based on provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury Regulations promulgated thereunder, and administrative and judicial interpretations of the foregoing, all as in effect as of the date hereof. Such authorities may be repealed, revoked, or modified, possibly with retroactive effect, so as to result in United States federal income tax consequences different from those described below.

The issuer intends to treat the Class A notes as debt for federal income tax purposes. In the opinion of our counsel, Mayer Brown LLP, the Class A notes will be characterized as debt for U.S. federal income tax purposes. The facts, assumptions and representations upon which the foregoing opinion is based include: (1) the pertinent provisions of the Code, the Treasury Regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect will remain in effect and will not otherwise be amended, revised, reversed or overruled; (2) the indenture, the master servicing agreement and the other documents



contemplated by this transaction and referred to herein are executed and delivered in substantially the form as on file with the indenture trustee (the “transaction documents”) and the parties thereto will carry out their respective duties and obligations as set forth therein; (3) the master servicer, the issuer, and the holders will treat the Class A notes as indebtedness for federal income tax purposes; and (4) on the closing date, the Class A notes will be rated “AAA sf” by Fitch Ratings and “AA+ (sf)” by Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business. This opinion will not be binding on the courts or the Internal Revenue Service (the “IRS”).

### **Tax Treatment of the Issuer**

Mayer Brown LLP will issue opinions to the placement agents and to the issuer to the effect that the issuer is an organization exempt from tax under section 501(c)(3) of the Code and will not have unrelated business taxable income with respect to the student loans that are part of the trust estate governed by the indenture. Such opinions will be subject to and limited by the assumptions and review described in the opinions and may not be relied upon or used by other persons. The opinions to be issued are merely the opinion of Mayer Brown LLP and are not binding on the IRS or the courts, and it is possible that the IRS and the courts may disagree with such opinions.

The issuer expresses in the indenture its intent that, for applicable tax purposes, the Class A notes will be indebtedness of the issuer secured by the trust estate. The issuer and the holders of the Class A notes, by accepting the Class A notes, have agreed to treat the Class A notes as indebtedness of the issuer for federal income tax purposes. The issuer intends to treat the Class A notes as its indebtedness for tax and financial accounting purposes.

The remainder of this discussion assumes that the Class A notes will be treated as indebtedness of the issuer for federal income tax purposes, except where otherwise stated.

**THIS SUMMARY IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING ON A HOLDER’S PARTICULAR SITUATION. PROSPECTIVE HOLDERS ARE STRONGLY URGED TO CONSULT THEIR TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES TO THEM OF THE PURCHASE, DISPOSITION, OR OWNERSHIP OF THE CLASS A NOTES, INCLUDING THE APPLICABILITY AND EFFECT OF FEDERAL, STATE, LOCAL, AND FOREIGN INCOME AND OTHER TAX LAWS IN THEIR PARTICULAR CIRCUMSTANCES.**

As used herein, the term “U.S. Holder” means a holder of Class A notes that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust (i) if a U.S. court is able to exercise primary supervision over administration of the trust and one or more U.S. persons have authority to control all substantial decisions of the trust, or (ii) that has a valid election in place under applicable Treasury Regulations to be treated as a domestic trust.

For purposes of this discussion, the term “non-U.S. Holder” means a holder of Class A notes that is not a U.S. Holder and is not a partnership or entity treated as a partnership for U.S. federal income tax purposes.

If a partnership (including an entity or arrangement treated as a partnership for U.S. federal income tax purposes) holds Class A notes, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. If you are a partner of a partnership holding Class A notes, you should consult your tax advisors.

### **U.S. Holders**

#### ***Tax Consequences to U.S. Holders Holding Class A Notes***

##### *Payments of Interest*

Interest paid on a Class A note will be taxable to a U.S. Holder as ordinary income at the time it is received or accrued, depending on the holder’s method of accounting for tax purposes.

### *Issue Price and Original Issue Discount*

The issue price of a Class A note will equal the first price at which a substantial amount of the Class A notes are sold to the public. If the issue price of a Class A note is less than its stated principal amount by more than a *de minimis* amount (as discussed below), the Class A note will be treated as issued with original issue discount ("OID") in an amount equal to the excess of such stated principal amount over its issue price. For federal income tax purposes, OID accrues to the holder of a Class A note over the period from issuance to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the holder). The portion of OID that accrues during the period of ownership of a Class A note (i) constitutes interest included in the holder's gross income for federal income tax purposes and (ii) is added to the holder's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of that Class A note. Thus, the effect of OID is to require the accrual into income of an issuance discount based on a constant yield over the life of the obligation rather than in proportion to the receipt of principal.

In the case of debt instruments as to which the repayment of principal may be accelerated as a result of the prepayment of other obligations securing the debt instrument, the periodic accrual of OID is determined by taking into account both the prepayment assumptions used in pricing the debt instrument and the prepayment experience. If this provision applies to the Class A notes, the amount of OID which will accrue in any given "accrual period" may either increase or decrease depending upon the accrual prepayment rate.

In the case of a debt instrument (such as a Class A note) as to which the repayment of principal may be accelerated as a result of the prepayment of other obligations securing the debt instrument, under section 1272(a)(6) of the Code, the periodic accrual of OID is determined by taking into account (i) a reasonable prepayment assumption in accruing OID (generally, the assumption used to price the debt offering) and (ii) adjustments in the accrual of OID when prepayments do not conform to the prepayment assumption, and regulations could be adopted applying those provisions to the Class A notes. It is unclear whether those provisions would be applicable to the Class A notes in the absence of such regulations or whether use of a reasonable prepayment assumption may be required or permitted without reliance on these rules. If this provision applies to the Class A notes, the amount of OID that will accrue in any given "accrual period" may either increase or decrease depending upon the actual prepayment rate. In the absence of such regulations (or statutory or other administrative clarification), any information reports or returns to the IRS and the noteholders regarding OID, if any, will be based on the assumption that the receivables will prepay at a rate based on the assumption used in pricing the Class A notes offered hereunder. However, no representation will be made regarding the prepayment rate of the student loans. See "*Prepayment Assumption*" below and also "*PREPAYMENT, EXTENSION, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE CLASS A NOTES*" in this offering memorandum. Accordingly, noteholders are advised to consult their own tax advisors regarding the impact of any prepayments under the receivables (and the OID rules) if the Class A notes offered hereunder are issued with OID.

If the amount of OID with respect to a Class A note is less than an amount equal to .0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to the maturity (or the weighted average maturity if principal is repaid at times other than at the maturity date of such Class A note) of the Class A note, the amount of OID is treated as zero.

### *Market Discount*

If a U.S. Holder of a Class A note purchases a Class A note in the secondary market at a price that is lower than its remaining redemption amount, or in the case of a Class A note with OID, its adjusted issue price, by at least .0025 multiplied by the product of the remaining redemption amount and the number of remaining complete years to maturity, the Class A note is considered to have "market discount" in the hands of such U.S. Holder. In general terms, market discount is treated as accruing ratably over the term of the Class A note, or, at the election of the holder, under a constant yield method. Accrued market discount is included in income as ordinary income, but a holder is not required to include accrued market discount into income until the holder either receives a principal payment or disposes of the obligation at a gain. A U.S. Holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis). Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

### *Premium*

A U.S. Holder of a Class A note that purchases the Class A note at a cost greater than its remaining redemption amount will be considered to have purchased the Class A note at a premium, and may elect to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Class A note. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. Holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. Holder that elects to amortize such premium must reduce its tax basis in the Class

A note by the amount of the premium amortized during its holding period. With respect to a U.S. Holder that does not elect to amortize bond premium, the amount of bond premium is included in the U.S. Holder's tax basis in the Class A note.

#### *Prepayment Assumption*

For tax information reporting purposes, the issuer will assume a prepayment assumption equal to 2% CPR, as described under "*Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes*" in Appendix D hereto. No representation is made that the student loans will prepay in accordance with that prepayment assumption or in accordance with any other prepayment assumption.

#### *Tax Consequences to U.S. Holders on the Purchase, Sale, Exchange, and Retirement of the Class A Notes*

A U.S. Holder's tax basis in a Class A note generally will equal its original cost, increased by any original issue discount included in the U.S. Holder's income with respect to the Class A note, and reduced by the amount of any amortizable bond premium applied to reduce interest on the Class A note and any payments on the Class A note other than payments of qualified stated interest. A U.S. Holder generally will recognize gain or loss on the sale, exchange or retirement of a Class A note equal to the difference between the amount realized on the sale or retirement of the Class A note (less any accrued interest, which will be taxed as such) and the U.S. Holder's tax basis in the Class A note. Gain in excess of accrued market discount not previously included in income or any loss recognized on the sale, exchange or retirement of a Class A note will be capital gain or loss and will be long-term capital gain or loss if the Class A note was held for more than one year. In the event that a Class A note was purchased with market discount (as discussed previously under "*Market Discount*"), a portion of any gain recognized on the disposition, exchange or retirement of a Class A note could be characterized as ordinary income.

#### *Recently Enacted United States Legislation*

Recently enacted United States legislation generally imposes an additional tax of 3.8% on the "net investment income" of certain individuals, trusts and estates for taxable years beginning after December 31, 2012. Among other items, net investment income generally includes gross income from interest and net gain attributable to the disposition of certain property, less certain deductions. Prospective investors should consult their own tax advisors regarding the possible implications of this legislation in their particular circumstances.

#### **Non-U.S. Holders**

##### *Tax Consequences to Non-U.S. Holders Holding Class A Notes*

The following is a general discussion of certain United States federal income and estate tax consequences resulting from the beneficial ownership of Class A notes by a person other than a U.S. Holder.

Subject to the discussion of backup withholding below, payments of principal by the issuer or any of its agents (acting in its capacity as agent) to any Non-U.S. Holder will not be subject to U.S. withholding tax. In the case of payments of interest to any Non-U.S. Holder, however, U.S. withholding tax will apply unless the Non-U.S. Holder (1) does not own (actually or constructively) 10-percent or more of the voting equity interests of the issuer or the master servicer, (2) is not a controlled foreign corporation for United States tax purposes that is related to the issuer (directly or indirectly) through stock ownership, and (3) is not a bank receiving interest in the manner described in Section 881(c)(3)(A) of the Code (which relates to interest received by a bank on an extension of credit made pursuant to a loan agreement entered into in the ordinary course of its trade or business). Moreover, either the Non-U.S. Holder must certify on IRS Form W-8BEN to (1) the issuer or its agent under penalties of perjury that it is not a U.S. person and must provide its name and address, or (2) a securities clearing organization, bank or other financial institution, that holds customers' securities in the ordinary course of its trade or business (which in turn will be obligated to certify to the issuer or its agent under penalties of perjury that such statement on IRS Form W-8BEN has been received from the Non-U.S. Holder by it or by another financial institution and must furnish the interest payor with a copy).

A Non-U.S. Holder that does not qualify for exemption from withholding as described above must provide the issuer or its agent with documentation as to his, her, or its identity to avoid the U.S. backup withholding tax on the amount allocable to a Non-U.S. Holder and be subject instead to the 30% foreign withholding rate (or lower treaty rate). The documentation may require that the Non-U.S. Holder provide a U.S. tax identification number.

If a Non-U.S. Holder is engaged in a trade or business in the United States and interest on a Class A note held by such holder is effectively connected with the conduct of such trade or business, the Non-U.S. Holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), would be subject to United States federal income tax on such interest in the same manner as if it were a U.S. Holder. In addition, if the Non-U.S. Holder is

a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Class A note will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States. Such a holder must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States federal withholding tax.

Any capital gain realized on the sale, exchange, retirement or other disposition of a Class A note by a Non-U.S. Holder will not be subject to United States federal income or withholding taxes if (1) the gain is not effectively connected with a United States trade or business of the Non-U.S. Holder, and (2) in the case of an individual, the Non-U.S. Holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition, and certain other conditions are met.

Non-U.S. Holders should consult their own tax advisors with respect to the possible applicability of United States withholding and other taxes upon income realized in respect of the Class A notes.

### ***United States Estate Tax Considerations***

The Class A notes generally will not be includible in the U.S. taxable estate of a Non-U.S. Holder unless the individual owns (actually or constructively) 10-percent or more of the voting equity interests of the issuer or the master servicer or, at the time of the individual's death, payments in respect of the Class A notes would have been effectively connected with the conduct by the individual of a trade or business in the United States.

### **Possible Characterization as a Partnership**

Although the federal income tax classification of the relationship between the holders of subordinate Class B notes and the residual certificate holder (the issuer) under the indenture is not free from doubt, the holders of subordinate Class B notes and the issuer intend to take the position that, for federal income tax purposes, the subordinate Class B notes represent indebtedness of the issuer. However, it is possible that the IRS will disagree with this characterization and may take the position that the relationship between the holders of subordinate Class B notes and the issuer is a partnership for federal income tax purposes. If the Internal Revenue Service were to successfully assert this position (or the indenture trustee were to determine that such a position was legally required to be taken), the holders of subordinate Class B notes and the issuer intend to file annually a Form 1065, Return of Partnership Income, and to comply with the requirements of subchapter K and the other provisions of the Code that apply to federal tax partnerships and the partners of such partnerships. Treatment of the subordinate Class B notes as tax partnership interests could result in holders of Class A notes that are non-U.S. Holders being subject to a 30% withholding tax (or lower treaty rate) if they are related to a party holding at least 10% of the subordinate Class B notes by principal balance. In addition, the Class A notes would not be treated as securities subject to the worthless security rules of Section 165(g) of the Code, but rather the bad debt rules of Section 166 of the Code. The federal income tax consequences to a holder of Class A notes should not otherwise be affected by the potential characterization of the relationship between the holders of subordinate Class B notes and the issuer as a partnership, but holders should discuss the potential tax consequences with their tax advisors.

Based upon certain assumptions and certain representations, Mayer Brown LLP will deliver its opinion that, for federal income tax purposes, even if the subordinate Class B notes are not treated as debt, then the arrangement between the holders of subordinate Class B notes and the issuer will be treated as a partnership for federal income tax purposes and any such partnership will not be characterized for federal income tax purposes as an association or publicly traded partnership taxable as a corporation. Unlike a ruling from the IRS, the opinion of Mayer Brown LLP is not binding on the courts or the IRS. Therefore, it is possible that the IRS could assert that, for purposes of the Code, such a partnership exists and that such partnership may be a publicly traded partnership taxable as a corporation.

The holders of subordinate Class B notes and the issuer will express in the indenture their intent that for federal income tax purposes the subordinate Class B notes will be indebtedness of the issuer secured by the financed student loans. The holders of subordinate Class B notes, by accepting the subordinate Class B notes, agree to treat the subordinate Class B notes as indebtedness of the issuer for federal income tax purposes, and the holders of subordinate Class B notes intend to treat the subordinate Class B notes as indebtedness of the issuer for financial accounting purposes.

If it were determined that the relationship among the holders of subordinate Class B notes and the issuer is, for federal income tax purposes, an entity treated as a corporation, such entity would be subject to federal income tax at corporate income tax rates on the income it derives from the pledged student loans, which would reduce the amounts available for payment to the holders of Class A notes. Cash payments to the holders of subordinate Class B notes generally would be treated as dividends for tax purposes to the extent of such entity's accumulated earnings and profits.

## Information Reporting and Backup Withholding

For each calendar year in which the Class A notes are outstanding, the issuer is required to provide the IRS with certain information, including a holder's name, address and taxpayer identification number (either the holder's Social Security number or its employer identification number, as the case may be), the aggregate amount of principal and interest paid to that holder during the calendar year and the amount of tax withheld, if any. This obligation, however, does not apply with respect to certain U.S. Holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts.

If a U.S. Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under-reports its tax liability, the issuer, its agents or paying agents or a broker may be required to make "backup" withholding of tax on each payment of interest or principal on the Class A notes. The current backup withholding rate for applicable payments is 28%. This backup withholding is not an additional tax and may be credited against the U.S. Holder's federal income tax liability, provided that the U.S. Holder furnishes the required information to the IRS.

Under current Treasury Regulations, backup withholding and information reporting will not apply to payments of interest made by the issuer or any of its agents (in their capacity as such) to a Non-U.S. Holder if such holder has provided the required certification that it is not a U.S. person (as set forth in the second paragraph under "*Non-U.S. Holders*" above), or has otherwise established an exemption (provided that neither the issuer nor its agent has actual knowledge that the holder is a U.S. person or that the conditions of an exemption are not in fact satisfied).

Payments of the proceeds from the sale of a Class A note to or through a foreign office of a broker generally will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) may apply to those payments if the broker is one of the following:

- a U.S. person;
- a controlled foreign corporation for U.S. tax purposes;
- a foreign person 50-percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a United States trade or business; or
- a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a Class A note to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its taxpayer identification number or otherwise establishes an exemption from information reporting and backup withholding.

## Recently Enacted United States Legislation

Recently enacted legislation imposes U.S. withholding tax on interest payments and proceeds of sale of interest-bearing obligations for payments made after December 31, 2012 (subject to certain IRS guidance suggesting that collection of this withholding tax may be suspended for payments made prior to January 1, 2014) to certain foreign financial institutions and non-financial foreign entities if certain disclosure requirements related to U.S. accounts or ownership are not satisfied. In general, the withholding tax will not apply to obligations that are issued after March 18, 2012. The IRS recently published proposed Treasury regulations in respect of this legislation which extends such exemption to debt instruments outstanding on January 1, 2013. The proposed Treasury regulations have not yet been adopted as final. As noted above, the issuer will not be obligated to pay any additional amounts to "gross up" payments to holders of the Class A notes or beneficial owners of the Class A notes as a result of any withholding or deduction for, or on account of, any present or future taxes, duties, assessments or government charges with respect to payments in respect of the Class A notes. Prospective investors are encouraged to consult their tax advisors regarding the implications of this legislation on their investment in the Class A notes, as well as the status of any related federal regulations.

**The preceding federal income tax discussion is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the Class A notes, including the tax consequences under federal, state, local, foreign and other tax laws and the possible effects of changes in those tax laws.**

## STATE TAX CONSIDERATIONS

In addition to the federal income tax consequences described under “*FEDERAL INCOME TAX CONSEQUENCES RELATING TO THE CLASS A NOTES*,” holders of the Class A notes should consider the state income tax consequences of the acquisition, ownership, and disposition of the Class A notes. State income tax law may differ substantially from the corresponding federal law, and this discussion does not describe any aspect of the income tax laws of any state. We strongly encourage you to consult your own tax advisors with respect to the various state tax consequences of an investment in the Class A notes.

## ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase and holding of Class A notes by an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), a plan described in and subject to Section 4975 of the Code, including an individual retirement account (“IRA”), and an entity deemed to hold “plan assets” of the foregoing (each, a “Plan”), as well as any governmental, non-U.S. or church plan that is subject to any applicable federal, state or local law that is similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (“Similar Laws”) (each, a “Non-ERISA Plan”). Fiduciaries of any such Plan or Non-ERISA Plan should consider the fiduciary standards of ERISA and Similar Laws in the context of such Plan’s or Non-ERISA Plan’s particular circumstances before authorizing an investment in Class A notes. Among other factors, fiduciaries of any such Plan or Non-ERISA Plan should consider whether an investment in Class A notes would satisfy the prudence and diversification requirements of ERISA, the Code and Similar Laws and would be consistent with the documents and instruments governing such Plan or Non-ERISA Plan, and whether the investment would involve a prohibited transaction under ERISA, the Code or Similar Laws.

Section 406 of ERISA and Section 4975 of the Code prohibit Plans from engaging in certain transactions with persons who are “parties in interest” under ERISA or “disqualified persons” under the Code with respect to such Plans. A violation of these prohibited transaction rules may result in excise tax or other liabilities under ERISA or the Code for those persons, unless exemptive relief is available under an applicable statutory, regulatory or administrative exemption. In the case of an IRA, the occurrence of a prohibited transaction could cause the IRA to lose its tax-exempt status. Non-ERISA Plans are not subject to the requirements of Section 406 of ERISA or Section 4975 of the Code but may be subject to Similar Laws.

A purchase of Class A notes by a Plan, with respect to which we or certain of our affiliates is or becomes a party in interest or disqualified person may constitute or result in a direct or indirect prohibited transaction under ERISA or Section 4975 of the Code, unless such purchase of Class A notes is made pursuant to an applicable exemption. Included among these exemptions are the following prohibited transaction class exemptions (“PTCE”) issued by the United States Department of Labor that may provide exemptive relief if required for direct or indirect prohibited transactions that may arise from the purchase of Class A notes: PTCE 84-14 (for certain transactions determined by independent qualified professional asset managers), PTCE 90-1 (for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (for certain transactions involving bank collective investment funds), PTCE 95-60 (for transactions involving certain insurance company general accounts), and PTCE 96-23 (for transactions managed by in-house asset managers). In addition, ERISA Section 408(b)(17) and Section 4975(d)(20) of the Code provide an exemption for the purchase and sale of securities such as the Class A notes, provided that neither the issuer of securities nor any of its affiliates have or exercise any discretionary authority or control or render any investment advice with respect to the assets of any Plan involved in the transaction, and provided further that the Plan pays no more and receives no less than “adequate consideration” in connection with the transaction (the “service provider exemption”). There can be no assurance that all of the conditions of any such exemptions will be satisfied at the time that Class A notes are purchased by a Plan; and a purchaser of Class A notes should be aware that even if the conditions specified in one or more exemptions are met, the scope of the relief provided by an exemption may not cover all acts that might be construed as prohibited transactions.

In determining whether to purchase Class A notes, the fiduciary of a Plan should also consider whether assets of the trust estate will be considered “plan assets” within the meaning of ERISA and the United States Department of Labor Regulation, 29 C.F.R. § 2510.3-101, as amended by Section 3(42) of ERISA (“Plan Asset Regulation”). Under the Plan Asset Regulation, the assets of an entity in which a Plan acquires an “equity interest” that is neither a “publicly offered” security nor a security issued by an investment company registered under the Investment Company Act of 1940, as amended, are considered to be assets of the Plan for purposes of the fiduciary requirements and prohibited transaction rules in Title I of ERISA and Section 4975 of the Code unless the entity is an “operating company” (including a venture capital operating company or a real estate operating company), or investments by Plans in each class of equity are not “significant” (i.e., Plans hold, in the aggregate, less than 25% of the value of any class of such entity’s equity (taking into account applicable exclusions under the Plan Asset Regulation)).

Although there is little guidance on the subject, as of the date hereof, the Class A notes are not expected to be treated as equity interests within the meaning of the Plan Asset Regulation. The debt treatment of the Class A notes for ERISA purposes could change subsequent to their issuance if the issuer incurs losses. Accordingly, a Plan fiduciary considering the purchase of Class A

notes should consult its tax and legal advisors regarding whether the assets of the trust estate would be considered plan assets under the Plan Asset Regulation, or even if the Class A notes are not treated as equity interests, whether the purchase and holding of Class A notes will constitute a non-exempt prohibited transaction if the trust estate or its affiliates is, or becomes, a party in interest or disqualified person with respect to an investing Plan.

Any purchaser or holder of Class A notes or any interest therein will be deemed to have represented by its purchase and holding of the Class A notes (or interest therein) that either (1) it is not a Plan or a Non-ERISA Plan and is not purchasing, and will not hold, the Class A notes on behalf of or with the assets of any Plan or Non-ERISA Plan, or (2) the purchase and holding of the Class A notes (or interest therein) will not constitute a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a non-exempt violation under any applicable Similar Laws. Plans may not purchase the Class A notes at any time that the ratings on the Class A notes are below investment grade or the Class A notes have been characterized as other than indebtedness for applicable local law purposes.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is important that fiduciaries or other persons considering purchasing the Class A notes on behalf of, or with the assets of, any Plan or Non-ERISA Plan consult with their legal counsel regarding potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such purchase of Class A notes and whether an exemption is available under any of the PTCEs listed above, the service provider exemption or the potential consequences of any purchase or holding under Similar Laws, as applicable. Purchasers of the Class A notes have exclusive responsibility for ensuring that their purchase and holding of the Class A notes do not violate the fiduciary or prohibited transaction rules of ERISA or the Code or any similar provisions of Similar Laws. The acquisition and holding of the Class A notes by any Plan or Non-ERISA Plan is in no respect a representation by us or any of our affiliates or representatives that such an investment meets all relevant legal requirements with respect to investments by such Plans or Non-ERISA Plans generally or any particular Plan or Non-ERISA Plan, or that such an investment is appropriate for Plans or Non-ERISA Plans generally or any particular Plan or Non-ERISA Plan.

#### **PLAN OF DISTRIBUTION**

Subject to the terms and conditions set forth in a placement agency agreement between the issuer and Morgan Stanley & Co. LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as placement agents, the Class A notes will be placed with investors through the placement agents. In consideration for the agreement by the placement agents to place the Class A notes, the issuer will pay the placement agents a placement fee of \$711,000 on the closing date from amounts on deposit in the costs of issuance subaccount of the student loan account. See “*USE OF PROCEEDS*.”

The Class A notes may be sold through the placement agents, on or after the closing date, in one or more negotiated transactions or otherwise at varying prices to be determined at the time of sale.

The placement agency agreement provides that the issuer will indemnify the placement agents for certain liabilities (including liabilities under applicable securities laws), or contribute to payments the placement agents may be required to make as a result of those liabilities.

The placement agents or their respective affiliates own asset-backed auction rate securities that were previously issued by the seller under the seller indenture that will be refunded with a portion of the proceeds of the Class A notes. See “*USE OF PROCEEDS*.”

The placement agents and some of their affiliates have in the past engaged, and may in the future engage, in commercial or investment banking activities with the issuer.

The issuer may, from time to time, invest the funds in the accounts in eligible investments acquired from a placement agent.

The Class A notes are a new issue of securities with no established trading market. We cannot assure you that you will be able to sell your Class A notes.

#### **CAPITAL REQUIREMENTS DIRECTIVE**

European Union member states are in the process of implementing Article 122a of the Capital Requirements Directive 2006/48/EC (as amended by Directive 2009/111/EC) (“Article 122a”) that, among other things, places certain restrictions on the ability of an EU-regulated credit institution to invest in asset-backed securities. Article 122a requires such credit institutions to only invest in asset-backed securities in respect of which the sponsor or originator has disclosed to investors that it will retain a specified

minimum net economic interest in the securitization transaction. Prior to investing in an asset-backed security, the credit institution must also be able to demonstrate that it has a comprehensive and thorough understanding of the securitization transaction and its structural features by satisfying the due diligence requirements and ongoing monitoring obligations of Article 122a.

None of the master servicer, the issuer, any originator of the student loans nor any of their respective affiliates is obligated to retain a material net economic interest in the securitization described in this offering memorandum or to provide any additional information that may be required to enable a credit institution to satisfy the due diligence and monitoring requirements of Article 122a.

Failure of an EU-regulated credit institution (or any other EU-regulated investor that may become subject to Article 122a) to comply with one or more requirements for an investment in a securitization set forth in Article 122a in any material respect may result in the imposition of a penalty regulatory capital charge on the securities acquired by that credit institution. In addition, Article 122a and any other changes to the regulation or regulatory treatment of asset-backed securities may negatively impact the regulatory position of affected investors and have an adverse impact on the value and liquidity of asset-backed securities such as the Class A notes. Noteholders should analyze their own regulatory position, and are encouraged to consult with their own investment and legal advisors regarding compliance with Article 122a and the suitability of the Class A notes for investment.

## LEGAL MATTERS

Certain legal matters relating to the issuer and the Class A notes will be passed on by its general counsel, Murray Watson, Jr., Esq., Waco, Texas who also serves as President and Chief Executive Officer of the master servicer. See *"THE MASTER SERVICER"* in this offering memorandum. Certain legal matters will be passed upon for the issuer by Mayer Brown LLP. Specific legal matters relating to federal income taxation will be passed upon by Mayer Brown LLP. Certain legal matters will be passed upon for the placement agents by Bingham McCutchen LLP. Certain legal matters will be passed upon for the indenture trustee and the eligible lender trustee by Looper, Reed & McGraw, P.C.

## RATINGS

It is a condition to the sale of the Class A notes that they be rated "AAAsf" by Fitch Ratings and "AA+ (sf)" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.

It is a condition to the issuance of the subordinate Class B notes that they be rated at least "Asf" by Fitch Ratings. The rating on subordinate Class B notes will not address the likelihood of the payment of any Class B Noteholders' Carry-Over Amount that may accrue on the subordinate Class B notes.

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.

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. The ratings of the Class A notes address the likelihood of the ultimate payment of principal of and interest on the Class A notes under their terms.

The issuer has furnished and will furnish to the rating agencies information and materials, some of which have not been included in this offering memorandum. Generally, a rating agency bases its rating on this information and materials, investigations, studies and assumptions obtained by the rating agency. There is no assurance that any rating will apply for any given period of time or that it will not be lowered or withdrawn entirely by the rating agency.

Each rating is subject to change or withdrawal at any time and any change or withdrawal may affect the market price or marketability of the Class A notes. The placement agents undertake no responsibility either to bring to the attention of the holders of notes any proposed change in or withdrawal of any rating of the Class A notes or to oppose any change or withdrawal.

## ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the Class A notes, or in any way contesting or affecting the validity of the Class A notes or any proceedings





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## APPENDIX A

### Glossary of Defined Terms

“Additional Fees” means any fees and expenses payable by the issuer to the master servicer (that are in addition to the Administration Fee and exclude any Reimbursement Payments and any fees or other amounts due to third parties), as compensation for the master servicer directly performing servicing duties with respect to the financed student loans in lieu of those servicing duties being performed by a subservicer pursuant to a subservicing agreement.

“Administration Fee” means any fees payable by the issuer to the master servicer (excluding any Additional Fees, any Reimbursement Payments and any fees or other amounts due to third parties, including any subservicer), in respect of financed student loans and the indenture pursuant to the provisions of the master servicing agreement.

“Ancillary Subservicing Fees” mean any fees and expenses payable to the subservicers with respect to the servicing of student loans held in the trust estate under the indenture other than Standard Subservicing Fees. For lack of doubt, Ancillary Subservicing Fees may include the payment of any annual maintenance fee of the back-up subservicer, if any, or any deconversion or conversions fees relating to student loans being transferred to another subservicer or the back-up subservicer for subservicing.

“Available Funds” means, as to a distribution date or any related monthly expense payment date, the sum of the following amounts received with respect to that distribution date or the related collection period or, in the case of a monthly expense payment date, the applicable portion of these amounts:

- all collections on the student loans received during that collection period, including any guarantee payments and insurance payments received on the student loans, but net of:
  - (a) any collections in respect of principal on the student loans applied by the issuer to repurchase guaranteed loans from the guarantors under the guarantee agreements, and
  - (b) amounts required by the Higher Education Act to be paid to the Department of Education or to be repaid to borrowers, whether or not in the form of a principal reduction of the applicable student loan, on the student loans for that collection period, including consolidation loan rebate fees and special allowance payment rebates, if any;
- any interest subsidy payments and special allowance payments with respect to the student loans during that collection period;
- the aggregate purchase amounts received during that collection period for those student loans repurchased by the issuer or purchased by the master servicer or for student loans sold to another eligible lender pursuant to the master servicing agreement;
- the aggregate amounts, if any, received during that collection period from any seller under a student loan purchase agreement or the master servicer, as the case may be, as reimbursement of non-guaranteed interest amounts, or lost interest subsidy payments and special allowance payments, on the student loans pursuant to the student loan purchase agreement or the master servicing agreement;
- any interest remitted by the indenture trustee to the collection account during that collection period or monthly expense payment date;
- investment earnings during that collection period earned on amounts on deposit in each account created under the indenture; and
- amounts transferred from the reserve account in excess of the Reserve Account Requirement during (or at the end of) that collection period;

provided, that if on any distribution date there would not be sufficient funds, after application of Available Funds, as defined above, and application of amounts available from the reserve account, to pay the monthly issuer expenses described in the first paragraph under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions*” and any of the items specified in clauses (a), (b) and (c) under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions*” and the item specified in clause (f) under “*DESCRIPTION OF THE CLASS A NOTES—Allocations and Distributions—Distributions*” on the stated maturity of the subordinate Class B notes, then Available Funds for that distribution date will include, in addition to the

Available Funds as defined above, amounts on deposit in the collection account, or amounts held by the indenture trustee, or which the indenture trustee reasonably estimates to be held by the indenture trustee, for deposit into the collection account which would have constituted Available Funds for the distribution date succeeding that distribution date, up to the amount necessary to pay those items, and the Available Funds for the succeeding distribution date will be adjusted accordingly.

“Class A Note Interest Shortfall” means, for any distribution date, the excess of:

- (a) the Class A Noteholders’ Interest Distribution Amount on the preceding distribution date, over
- (b) the amount of interest actually distributed to the holders of Class A notes on that preceding distribution date, plus interest on the amount of that excess, to the extent permitted by law, at the interest rate applicable to the Class A notes from that preceding distribution date to the current distribution date.

“Class A Noteholders’ Interest Distribution Amount” means, for any distribution date, the sum of:

- (a) the amount of interest accrued at the Class A note interest rate for the related accrual period on the aggregate outstanding principal amounts of the Class A notes immediately preceding such distribution date (or, in the case of the first distribution date, the closing date), after giving effect to any principal distributions to holders of Class A notes on that preceding distribution date, and
- (b) the Class A Note Interest Shortfall for that distribution date.

“Class B Note Interest Shortfall” means, for any distribution date, the excess of (i) the Class B Noteholders’ Interest Distribution Amount for the subordinate Class B notes on the preceding distribution date, over (ii) the amount of interest actually distributed to the Class B noteholders on that preceding distribution date, plus interest on the amount of that excess, to the extent permitted by law, at the interest rate applicable for the subordinate Class B notes from that preceding distribution date to the current distribution date (which interest rate, for lack of doubt, shall be calculated without regard to the Class B Noteholders’ Interest Cap). Class B Noteholders’ Carry-Over Amount shall not be characterized as Class B Note Interest Shortfalls for purposes of this definition.

“Class B Noteholders’ Carry-Over Amount” has the meaning described in this offering memorandum under “*CREDIT ENHANCEMENT—The Subordinate Class B Notes—Interest Rate.*”

“Class B Noteholders’ Interest Accrual Amount” has the meaning described in this offering memorandum under “*CREDIT ENHANCEMENT—The Subordinate Class B Notes—Interest Rate.*”

“Class B Noteholders’ Interest Cap” has the meaning described in this offering memorandum under “*CREDIT ENHANCEMENT—The Subordinate Class B Notes—Interest Rate.*”

“Class B Noteholders’ Interest Distribution Amount” has the meaning described in this offering memorandum under “*CREDIT ENHANCEMENT—The Subordinate Class B Notes—Interest Rate.*”

“Extraordinary Indenture Trustee Expenses” mean any indemnification payments payable by the issuer to the indenture trustee under the indenture as described in this offering memorandum in the third paragraph under “*DESCRIPTION OF THE INDENTURE—The Indenture Trustee—Duties of the Trustee.*”

“Initial Pool Balance” means the Pool Balance as of the closing date.

“Pool Balance” means, for any date, the aggregate principal balance of the student loans (other than any student loan for which the related guarantor or the Secretary of Health and Human Services, as applicable, has either paid or rejected a claim for guarantee payment or insurance) as of the close of business on that date, including accrued interest that is expected to be capitalized.

“Rating Confirmation” means, with respect to each rating agency (other than Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLC business) then providing a rating for any of the notes, if any, a letter, written notice, press release or other written communication from each such rating agency stating or confirming that the action proposed to be taken by the issuer will not, in and of itself, result in a downgrade of any of the ratings then applicable to the notes, or cause any such rating agency to suspend or withdraw the ratings then applicable to the notes. With respect to the subordinate Class B notes, a Rating Confirmation shall not address the likelihood of the payment of any Class B Noteholders’ Carry-Over Amount that may accrue on the subordinate Class B notes.

“Reimbursement Payments” means amounts payable by the issuer to the master servicer (that are in addition to the Administration Fee and any Additional Fees) as reimbursements for any liabilities, costs or expenses that may be incurred by the master servicer with respect to the performance by the master servicer of any extraordinary services requested by the issuer relating to the indenture or the master servicing agreement or as additional compensation as may be mutually agreed to from time to time by the master servicer and the issuer.

“Reserve Account Requirement” has the meaning described in this offering memorandum under “*SUMMARY—Security and Sources of Payment for the Note —Reserve Account.*”

“Standard Subservicing Fees” mean any fees and expenses payable to the subservicers with respect to the servicing of student loans held in the trust estate under the indenture consisting of periodic unit fees, default related fees and delinquency fees.

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## APPENDIX B

### Description of Subservicers

The following general information concerning each subservicer was supplied to the issuer by each subservicer and has not been verified by the issuer or the placement agents. No representation is made by the issuer or the placement agents as to the accuracy or completeness of such information. See “*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Subservicer (As of the Statistical Cut-Off Date)*” for a break-down of the percent of student loans serviced by each subservicer as of the statistical cut-off date.

**Great Lakes Educational Loan Services, Inc.** Great Lakes Educational Loan Services, Inc. (“GLELSI”) acts as a loan servicing agent for the issuer. GLELSI is a wholly owned subsidiary of Great Lakes Higher Education Corporation (“GLHEC”), a Wisconsin nonstock, nonprofit corporation. The primary operations center for GLHEC and its affiliates (including GLELSI) is in Madison, Wisconsin, which includes the data processing center and operational staff offices for both guaranty support services provided by GLELSI to GLHEC and third party guaranty agencies and lender servicing functions. GLHEC and affiliates also maintain offices in St. Paul, Minnesota, Aberdeen, South Dakota and Boscobel and Eau Claire, Wisconsin and customer support staff located nationally. GLELSI began servicing loans for commercial lenders in 1977, first as a division of the Wisconsin Higher Education Corporation, subsequently renamed the Great Lakes Higher Education Corporation, then as GLELSI. In September, 2009, GLELSI began servicing loans for the U.S. Department of Education. GLELSI is presently one of four servicers who service loans issued to new student and parent borrowers under the Federal Direct Student Loan Program. As of December 31, 2011, GLELSI serviced 8,058,232 student and parental accounts with an outstanding balance of \$90.8 billion for over 1,180 lenders nationwide, including the U.S. Department of Education. As of December 31, 2011, 51.7% of the portfolio serviced by GLELSI was in repayment status, 6.8% was in grace status and the remaining 41.6% was in interim status. GLELSI will provide a copy of GLHEC’s most recent consolidated financial statements on receipt of a written request directed to 2401 International Lane, Madison, Wisconsin 53704, Attention: Chief Financial Officer.

**Pennsylvania Higher Education Assistance Agency.** The Pennsylvania Higher Education Assistance Agency (“PHEAA”) is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to an act of the Pennsylvania Legislature. Under its enabling legislation, PHEAA is authorized to issue bonds or notes, with the approval of the Governor of the Commonwealth of Pennsylvania for the purpose of purchasing, making, or guaranteeing loans. Its enabling legislation also authorizes PHEAA to undertake the origination and servicing of loans made by PHEAA and others. PHEAA’s headquarters are located in Harrisburg, Pennsylvania with regional offices located throughout Pennsylvania. As of April 30, 2012, PHEAA had approximately 2,700 employees. PHEAA’s two principal servicing products are its full servicing operation (in which it performs all student loan servicing functions on behalf of its customers) and its remote servicing operation (in which it provides only data processing services to its customers that have their own servicing operations). As of April 30, 2012, PHEAA services approximately 7.1 million student loan accounts representing an aggregate of approximately \$133.9 billion outstanding principal amount for its full servicing customers which consist of national and regional banks and credit unions, secondary markets, and government entities, including \$71.8 billion serviced for the Department of Education. Under PHEAA’s remote servicing operation, the remote clients service approximately 1.8 million student borrowers representing approximately \$29.5 billion outstanding principal amount, including \$10.6 billion owned by the Department of Education. One remote client has provided notice of termination of their remote servicing agreement. This client has approximately \$7.3 billion in outstanding principal and 533,000 student borrowers as of April 30, 2012. The volume will be deconverted from the PHEAA system over a period of time between July and December 2012.. PHEAA’s most recent audited financial reports are available at [www.pheaa.org](http://www.pheaa.org).

**Sallie Mae, Inc.** Sallie Mae, Inc. (“Sallie Mae”) is a subsidiary of SLM Corporation and Sallie Mae acts as a loan subservicer for the master servicer. SLM Corporation and its subsidiaries serve, as of December 31, 2011, approximately 25 million customers through SLM Corporation’s and its subsidiaries’ ownership and management of approximately \$174.4 billion of student loans, of which approximately \$138.1 billion, or approximately 79%, are federally insured. Sallie Mae is also the nation’s largest servicer of student loans, managing or servicing a portfolio of approximately \$238 billion, as of December 31, 2011. Sallie Mae’s principal administrative offices are located in Newark, Delaware.

**Xerox Education Services, Inc.** XEROX-ES acts as a loan servicer for the issuer. XEROX-ES is a for-profit corporation and a wholly-owned subsidiary of Xerox Corporation (“Xerox”). Headquartered in Norwalk, Connecticut, Xerox is a Fortune 500 company providing document technology, services, software and supplies for production and office environments, as well as business process and technology outsourcing solutions to world-class commercial and government clients. Xerox’s common stock trades on the New York Stock Exchange under the symbol “XRX.” XEROX-ES has its headquarters at 2277 E. 220th Street, Long Beach, CA 90810, and has domestic regional processing centers in Long Beach and Bakersfield, California; Utica, New York; Oak Brook, Illinois; Aberdeen, South Dakota and Madison, Mississippi. The Guaranteed Loan Servicing Group is operated by XEROX-ES as an independent, third party education loan servicer with approximately 1,300 employees, providing full service loan origination and

servicing for the Federal Stafford, PLUS and Consolidation education loan programs and many alternative/private loan programs. XEROX-ES and its predecessors have over 42 years of experience providing outsourcing services to higher education. As of June 2012, the Guaranteed Loan Servicing Group of XEROX-ES currently services approximately 4.0 million education loan accounts with loans valued at approximately \$58 billion. XEROX-ES' Guaranteed Loan Servicing Group services include Stafford, PLUS, Consolidation, and private/alternative loan servicing, as well as post-origination conversion and private loan origination. Origination services include receipt and validation of application data, underwriting (if required), school and borrower customer service and loan disbursement. A wide range of schools are supported, as well as a variety of different disbursement methods, including: check, master check, automated clearinghouse (ACH), and disbursement via national disbursing agents. Conversion services include set-up of new accounts to the servicing platform from the origination system or a lender's system. This area also supports transfer of existing education loan portfolios from other servicers' systems, as well as loan sales and securitizations. Loan servicing includes lender and borrower services, payment and transaction processing, due diligence activities as required by federal regulations or private/alternative loan program requirements, and communications with schools, guarantors, the National Student Loan Clearing House, and others. In the event of borrower default, XEROX-ES prepares and submits a claim package on the lender's behalf to the appropriate guaranty agency for review and guarantee payment, if applicable. Xerox files periodic reports with the Securities and Exchange Commission (the "SEC") as required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Reports filed with the SEC are available for inspection without charge at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549. Information as to the operation of the public reference facilities is available by calling the SEC at 1-800-SEC-0330. Information filed with the SEC can also be inspected at the SEC's site on the World Wide Web at "<http://www.sec.gov>." Xerox also currently provides information through Xerox's website at "<http://www.xerox.com>." Information filed by Xerox with the SEC or contained on Xerox's website is not intended to be incorporated as part of this offering memorandum and information contained on Xerox's website is not a part of the documents that Xerox files with the SEC.

***Brazos Loan Servicing, Inc.*** Brazos Loan Servicing, Inc. ("BLS") will be a loan servicing agent for the issuer. BLS is a non profit corporation organized under the Texas Nonprofit Corporation Law and is exempt from payment of federal income taxation as a "501(c)(3)" non-profit corporation. On September 1, 2010, BLS purchased the servicing assets of Graduate Leverage, LLC's servicing center located in College Station, Texas. BLS' principal operations are located at 4030 Highway 6 South, Suite 300, College Station, Texas 77845, (979) 690-6552. Ernest P. Beardsley serves as President of BLS. Mr. Beardsley has over 30 years of experience in servicing student loans. Prior to joining BLS, Mr. Beardsley was the Executive Vice President for the Pennsylvania Higher Education Assistance Agency. As of June 29, 2012, BLS serviced approximately \$2 billion of student loans, of which approximately \$300 million are non-FFELP loans and approximately \$1.7 billion are FFELP loans. As of June 29, 2012, approximately 80% of the FFELP portfolio was in repayment status with less than 2.9% of the FFELP portfolio greater than 31 days delinquent. Of the 2.9 % delinquent greater than 31 days, 0.15% are in default claim status. In 2011, BLS exhibited Gross Claims Reject levels of less than 0.50%.



## APPENDIX C

### Description of Significant Guarantee Agencies

The following general information concerning each significant guarantee agency was supplied to the issuer by each significant guarantee agency and has not been verified by the issuer or the placement agents. No representation is made by the issuer or the placement agents as to the accuracy or completeness of such information. See “*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Guarantee Agency (As of the Statistical Cut-Off Date)*” for a break-down of the percent of student loans guaranteed by each significant guarantee agency as of the statistical cut-off date.

***Pennsylvania Higher Education Assistance Agency.*** Pennsylvania Higher Education Assistance Agency (“PHEAA”) is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Pennsylvania Act of August 7, 1963, P.L. 549, as amended (the “Pennsylvania Act”).

PHEAA has been guaranteeing student loans since 1964. As of April 30, 2012, PHEAA has guaranteed a total of approximately \$48.8 billion principal amount of Stafford Loans, \$7.9 billion principal amount of PLUS and SLS Loans, and \$52.1 billion principal amount of Consolidation Loans under the Higher Education Act. PHEAA initially guaranteed loans only to residents of the Commonwealth of Pennsylvania (the “Commonwealth”) or persons who planned to attend or were attending eligible education institutions in the Commonwealth. In May 1986, PHEAA began guaranteeing loans to borrowers who did not meet these residency requirements pursuant to its national guarantee program. Under the Pennsylvania Act, guarantee payments on loans under PHEAA’s national guarantee program may not be paid from funds appropriated by the Commonwealth.

PHEAA has adopted a default prevention program consisting of (i) informing new borrowers of the serious financial obligations incurred by them and stressing the financial and legal consequences of failure to meet all terms of the loan, (ii) working with institutions to make certain that student borrowers are enrolled in sound education programs and that the proper individual enrollment records are being maintained, (iii) assisting lenders with operational programs to ensure sound lending policies and procedures, (iv) maintaining up-to-date student status and address records of all borrowers in the guaranty program, (v) initiating prompt collection actions with borrowers who become delinquent on their loans, do not establish repayment schedules or “skip,” (vi) taking prompt action, including legal action and garnishment of wages, to collect on all defaulted loans, and (vii) adopting a general policy that no loan will be automatically “written off.” Since the loan servicing program was initiated in 1974, PHEAA has never exceeded an annual default claims percentage of 5 percent and, as a result, federal reimbursement for default claims has thus far been at the maximum federal reimbursement level.

For the last five federal fiscal years (ending September 30), the annual default claims percentages have been as follows:

<u>Fiscal Year</u>	<u>Annual Default Claims</u>
2007	1.96
2008	1.98
2009	1.95
2010	1.75
2011	1.54

As of April 30, 2012, PHEAA had total federal reserve-fund assets of approximately \$74.0 million. Through April 30, 2012, the outstanding amount of original principal on loans that had been directly guaranteed by PHEAA under the Federal Family Education Loan Program was approximately \$42.4 billion. In addition, as of April 30, 2012, PHEAA had total assets of \$8.9 billion, which does not include Federal Reserve Fund assets.

***Guarantee Volume.*** PHEAA’s guaranty volume (the approximate aggregate principal amount of federally reinsured education loans, including PLUS Loans but excluding federal Consolidation Loans) was as follows for the last five federal fiscal years (ending September 30):

<u>Fiscal Year</u>	<u>Guaranty Volume (Millions)</u>
2007	4,121
2008	3,948
2009	4,086
2010	913
2011	0

*Reserve Ratio.* Under current law, PHEAA is required to manage the Federal Fund so net assets are greater than 0.25% of the original principal balance of outstanding guarantees.

<u>Fiscal Year</u>	<u>Reserve Ratio</u>
2007	0.25
2008	0.25
2009	0.25
2010	0.44
2011	0.40

*Recovery Rates.* A guarantor's recovery rate, which provides a measure of the effectiveness of the collection efforts against defaulting borrowers after the guarantee claim has been satisfied, is determined for each year by dividing the current year collections by the total outstanding claim portfolio for the prior fiscal year. The table displays PHEAA's calculation of the ratio on a regulatory basis of accounting. In addition to gain contingencies not recognized under generally accepted accounting principles, the FY 2010 reserve ratio includes an adjustment related to foregoing the transfer of default aversion fees from the Federal Reserve Fund to the Agency Operating Fund as agreed to in our management plan approved by the Department of Education on May 22, 2007. The table below shows the cumulative recovery rates for PHEAA for the five federal fiscal years (ending September 30) for which information is available:

<u>Fiscal Year</u>	<u>Recovery Rates</u>
2007	37.76
2008	32.81
2009	29.32
2010	32.28
2011	31.50

***United Student Aid Funds, Inc.*** United Student Aid Funds, Inc. ("USA Funds") was organized as a private, nonprofit corporation under the General Corporation Law of the State of Delaware in 1960. In accordance with its Certificate of Incorporation, USA Funds: (i) maintains facilities for the provision of guarantee services with respect to approved education loans made to or for the benefit of eligible students who are enrolled at or plan to attend approved educational institutions; (ii) guarantees education loans made pursuant to certain loan programs under the Higher Education Act, as well as loans made under certain private loan programs; and (iii) serves as the designated guarantor for education-loan programs under the Higher Education Act of 1965, as amended ("the Act") in Arizona, Hawaii and certain Pacific Islands, Indiana, Kansas, Maryland, Mississippi, Nevada and Wyoming.

USA Funds contracts with Sallie Mae, Inc., a wholly owned subsidiary of SLM Corporation. USA Funds also contracts with Student Assistance Corporation, a wholly owned subsidiary of SLM Corporation. SLM Corporation and its subsidiaries are not sponsored by nor are they agencies of the United States of America.

Effective December 13, 2004, USA Funds became the sole member of the Northwest Education Loan Association, a guarantor serving the states of Washington, Idaho and the Northwest.

For the purpose of providing loan guarantees under the Act, USA Funds has entered into various agreements (collectively, the “Federal Reinsurance Agreements”) with the U.S. Secretary of Education (the “Secretary”). Pursuant to the Federal Reinsurance Agreements, USA Funds serves as a “guaranty agency” as defined in Section 435(j) of the Act. The Act allows the Secretary, after giving the guaranty agency notice and the opportunity for a hearing, to terminate the Federal Reinsurance Agreements if the Secretary determines that the administrative or financial condition of the guaranty agency jeopardizes the agency’s continued ability to perform its responsibilities under its guaranty agreement, it is necessary to protect the federal financial interest, or to ensure the continued availability of loans to student- or parent-borrowers.

Reinsurance is paid to USA Funds by the Secretary in accordance with a formula based on the annual default rate of loans guaranteed by USA Funds under the Act and the disbursement date of loans. The rate of reinsurance ranges from 100 percent to 75 percent of USA Funds’ losses on default-claim payments made to lenders. The Higher Education Amendments of 1998 (the “1998 Reauthorization Law”) reduced the reinsurance coverage for loans in default made on or after Oct. 1, 1998, to a range from 95 percent to 75 percent based upon the annual default claims rate of the guaranty agency. Reinsurance on non-default claims remains at 100 percent.

The 1998 Reauthorization Law requires guaranty agencies to establish two (2) separate funds, a federal reserve fund (property of the United States) and an agency operating fund (property of the guaranty agency). The federal reserve fund is to be used to pay lender claims and to pay a default-aversion fee to the agency operating fund. The agency operating fund is to be used by the guaranty agency to pay its operating expenses.

On March, 30, 2010, President Obama signed into law the Health Care and Education Reconciliation Act of 2010 (Public Law 111-152), which ended the origination and guarantee of new loans under the Federal Family Education Loan Program, effective for loans whose first disbursement was after June 30, 2010. As a result of the new statute, USA Funds will continue to administer a portfolio of outstanding FFELP loans, but no longer may guarantee new federal student loans.

As of September 30, 2011, USA Funds held net assets on behalf of the federal reserve fund of approximately \$289 million. Through September 30, 2011, the outstanding, unpaid, aggregate amount of principal and interest on loans that had been directly guaranteed by USA Funds under the Federal Family Education Loan Program was approximately \$73 billion. Also, as of September 30, 2011, USA Funds had operating fund assets totaling slightly over \$1 billion, which includes the \$289 million of net assets held on behalf of the Federal Reserve Fund

USA Funds’ “reserve ratio” complies with the U.S. Department of Education definition, which is determined by dividing the fund balance reserves, including non-cash allowance and other non-cash, in a guarantor’s federal reserve fund, by the total amount of loans outstanding. Following this formula, the reserve ratio for the federal reserve fund administered by USA Funds for the last five fiscal years was as follows:

<b>Fiscal Year</b>	<b>Reserve Ratio</b>
2011	0.394%
2010	0.400%
2009	0.380%
2008	0.330%
2007	0.250%

USA Funds’ “recovery rate,” which provides a measure of the effectiveness of the collection efforts against defaulted borrowers after the guarantee claim has been satisfied, is determined by dividing the amount recovered from borrowers by USA Funds during the fiscal year by the aggregate amount of default claims paid by USA Funds outstanding at the end of the prior fiscal year. For the last five fiscal years, the “recovery rate” was as follows:

<b>Fiscal Year</b>	<b>Recovery Rate</b>
2011	32.17%
2010	32.90%
2009	36.19%
2008	45.60%
2007	40.30%

USA Funds' "loss rate" represents the percentage of claims purchased from lenders but not covered by reinsurance. For the last five fiscal years, the "loss rate" was as follows:

<b>Fiscal Year</b>	<b>Loss Rate</b>
2011	4.74%
2010	4.70%
2009	4.62%
2008	4.26%
2007	4.07%

In addition, USA Funds' "claims rate" represents the percentage of federal reinsurance claims paid by the Secretary during any fiscal year, less amounts remitted to the Secretary for defaulted loans that are rehabilitated relative to USA Funds' existing portfolio of loans in repayment at the end of the prior fiscal year. For the last five fiscal years, the "claims rate" was as follows:

<b>Fiscal Year</b>	<b>Claims Rate</b>
2011	1.69%
2010	1.69%
2009	1.92%
2008	2.07%
2007	2.13%

USA Funds is headquartered in Fishers, Indiana. USA Funds will provide a copy of its most recent annual report upon receipt of a written request directed to its headquarters at P.O. Box 6028, Indianapolis, Indiana 46206-6028, Attention: Vice President, Corporate and Marketing Communications.

**Texas Guaranteed Student Loan Corporation.** The Texas Guaranteed Student Loan Corporation ("TGSLC") is a Texas public non-profit corporation organized in 1980 by the Texas legislature to operate as a guarantee agency in what is now known as the Federal Family Education Loan Program (FFELP), providing a Federally reinsured guaranty of eligible Stafford, PLUS and consolidation student loans. Located at 301 Sundance Parkway, Round Rock, Texas 78681, TGSLC is governed by ten directors appointed by the Governor of Texas in addition to the State Comptroller, and is staffed by approximately 630 employees.

**Guaranty Volume.** The following table sets forth the approximate aggregate principal amount of federally reinsured education loans (including loans under the Parent Loans for Undergraduate Students ("PLUS") program but excluding Federal Consolidation Loans) that have first become guaranteed in each of the following federal fiscal years calculated by subtracting the prior year end Form 2000 Line AR1 from that of the current year.

**Stafford, SLS and PLUS Loans Guaranteed  
(dollars in millions)**

<u>Federal Fiscal Year (ending September 30)</u>	<u>TGSLC<sup>(1)</sup></u>
2007	4,582
2008	7,256
2009	10,324
2010	2,956
2011	-

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

**Reserve Ratio.** The reserve ratio is determined by dividing its cumulative Federal Fund cash and investment reserves, by the original principal amount of the outstanding loans guaranteed. The term "cumulative cash reserves" means the difference between sources and uses of monies in the Federal Reserve Fund. The following table sets forth the respective reserve ratio for the following fiscal years:

**Reserve Ratio**

Federal Fiscal Year (ending September 30)	TGSLC <sup>(1)</sup>
2007	0.900%
2008	0.905%
2009	0.980%
2010	1.470%
2011	1.667%

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

*Recovery Rates.* Determined by dividing the cumulative amount recovered from borrowers (prior year total plus current year Form 2000 Lines MR 10,10A, 11A, 11B, 12A, 13A, 17,19 and 27) by the cumulative amount of default claims paid (Form 2000 Line AR 8). The table below sets forth the recovery rates for the following fiscal years:

**Recovery Rate**

Federal Fiscal Year (ending September 30)	TGSLC <sup>(1)</sup>
2007	82.0
2008	83.2
2009	82.7
2010	84.4
2011	85.7%

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

*Claims Rate.* For the following federal fiscal years, the claims rate is as follows:

**Claims Rate**

Federal Fiscal Year (ending September 30)	TGSLC <sup>(1)</sup>
2007	3.01
2008	3.32
2009	3.40
2010	2.99
2011	3.56

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

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

Eligible FFELP loans sold (“put”) to ED at the lenders option under Federal legislation provisions have been removed from TG’s portfolio.

**New York State Higher Education Services Corporation.** New York State Higher Education Services Corporation (HESC) is an agency of New York State (NYS) created in 1974 under Chapter 942 of the Laws of 1974 and is responsible for the administration of New York State’s student financial aid programs, including the Federal Family Education Loan Program (FFELP) and State loan guarantee program. FFELP was established by congress and is administered by the U.S. Department of Education (ED) through HESC and other guaranty agencies. As a result of the March 30, 2010 enactment of the Health Care and Education Reconciliation Act (HCERA) (HR4872), new loan guarantees under the FFELP were eliminated effective July 1, 2010.

HESC will continue providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default, and collection activities on loans after purchase by HESC. In addition to FFELP, the Guaranteed Student Loan Programs (GSL) include the residual activity of the State guaranteed loan program in which no new loans have been guaranteed since 1984.

HESC has a Federal Student Loan Reserve Fund (Federal Fund) and an Operating Fund to account for FFELP activity. The Federal Fund assets, and earnings on those assets, are restricted in use and are considered property of ED. The Operating Fund is considered property of HESC, and its assets and earnings may be used generally for guaranty agency and other student financial aid related activities.

HESC also administers the Tuition Assistance Program (TAP), State scholarship and loan forgiveness programs, and Robert L. Byrd Federal Scholarship Program under which students apply for payments to attend eligible educational institutions based on family income and/or academic achievement. In addition, HESC partners with colleges, universities, school districts and other educational organizations in administering the Federal GEAR UP and College Access and Challenge Grants which are designed to increase the number of low income students who are prepared to enter and succeed in postsecondary education.

In 2009 the State legislature created the New York Higher Education Loan Program (NYHELPS), a State sponsored student loan program for New York residents attending participating institutions in the State.

HESC's most recent audited financial statements and annual report are available at [www.hesc.org](http://www.hesc.org).

## APPENDIX D

### Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes

Prepayments on pools of student 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 student loans will prepay in each month according to the following formula:

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

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

	<u>0% CPR</u>	<u>2% CPR</u>	<u>4% CPR</u>	<u>6% CPR</u>	<u>8% CPR</u>
Monthly Prepayment	\$0.00	\$1.68	\$3.40	\$5.14	\$6.92

The CPR model does not purport to describe historical prepayment experience or to predict the prepayment rate of any actual student loan pool. The student loans pledged under the indenture will not prepay according to the CPR, nor will all of the student loans prepay at the same rate. You 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, among other things, that:

- the statistical cut-off date for the student loans is June 30, 2012;
- the closing date is August 8, 2012;
- all of the student loans are acquired on the closing date;
- all student loans (as grouped within the “rep lines”) that are in school status are assumed to remain in school until their status end date, and then enter a grace term of 6 months before entering repayment. All other student loans remain in their current status until their status end date and then move to repayment and no student loan moves from repayment to any other status;
- all student loans and rep lines are assumed to have the same characteristics on the closing date as they had on the statistical cut-off date, except for each loan principal balance, which has been reduced by a factor to take into account, among other things, amortization and prepayment of the student loans from the statistical cut-off date to the closing date;
- the student 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, have interest accrued and capitalized upon entering repayment;
- the student loans that are (i) Subsidized Stafford Loans in school, grace or deferment status, or (ii) Subsidized Consolidation Loans in deferment status, have interest paid (interest benefit payments) by the Department of Education quarterly, based on a quarterly calendar accrual period;
- there are government payment delays of 60 days for interest benefit and special allowance payments;
- no delinquencies or defaults occur on any of the student loans, no purchases from the trust estate for breaches of representations, warranties or covenants occur, and all borrower payments are collected in full;
- index levels for calculation of borrower and government payments are:
  - a one-month LIBOR rate of 0.24%;
  - a 91-day Treasury bill rate of 0.09%; and
  - a 1-year CMT rate of 0.20%;

- monthly distributions begin on October 25, 2012, and payments are made monthly on the twenty-fifth day of every month, whether or not the twenty-fifth is a business day;
- the interest rate for the Class A notes at all times will be equal to 0.94%;
- the interest rate for the subordinate Class B notes at all times will be equal to 3.24%;
- interest accrues on the notes on an actual/360 day count basis;
- monthly subservicing fees paid under the indenture are paid monthly according to schedules set forth in each subservicing agreement with an assumed 0.0% inflation rate per annum;
- monthly administration fees paid under the indenture equal 0.25% per annum of the pool balance;
- indenture trustee and eligible lender trustee fees equal 0.0125% per annum of the outstanding note balance and are paid monthly under the indenture;
- the reserve account has an initial balance equal to 0.25% of the expected Initial Pool Balance, and thereafter has a balance equal to the greater of (a) 0.25% of the then current Pool Balance and (b) 0.15% of the Initial Pool Balance; in no event will the balance in the reserve account exceed the aggregate outstanding amount of the notes;
- Ancillary Subservicing Fees, Extraordinary Indenture Trustee Expenses and annual surveillance fees of the rating agencies together total \$106,000 per annum, 1/4<sup>th</sup> of such amount is payable on a quarterly basis;
- all payments are assumed to be made at the end of the month and amounts on deposit in the collection account and the reserve account 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 collection period; reinvestment earnings from the prior collection period are available for distribution;
- the collection account has an initial balance of \$0;
- no clean-up call or mandatory auction of the student loans occurs;
- a Consolidation Loan rebate fee equal to 1.05% per annum of the outstanding principal balance of the student loans that are Consolidation Loans, paid monthly with a payment delay of 30 days by the issuer to the Department of Education; and
- no event of default has occurred or is continuing.

The following tables 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 student loans) and should be read in conjunction therewith. In addition, the diverse characteristics, remaining terms and loan ages of the student 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 and loan ages are the same as the characteristics, remaining terms and loan ages assumed. The following tables show the weighted average remaining lives, the expected maturity dates and percentages of original principal of the notes at various levels of CPR from the closing date until maturity.



**Weighted Average Lives and Expected Maturity Dates of the Class A Notes  
at Various CPRs**

<b>Weighted Average Life (years)<sup>(1)</sup></b>	<b>0%</b>	<b>2%</b>	<b>4%</b>	<b>6%</b>	<b>8%</b>
Class A notes.....	7.26	6.47	5.79	5.23	4.74

  

<b>Expected Maturity Date</b>	<b>0%</b>	<b>2%</b>	<b>4%</b>	<b>6%</b>	<b>8%</b>
Class A notes.....	May 25, 2027	October 25, 2026	February 25, 2026	June 25, 2025	October 25, 2024

<sup>(1)</sup> The weighted average life of the Class A notes (assuming a 360-day year consisting of twelve 30-day months) is determined by: (1) multiplying the amount of each principal payment on the Class A notes by the number of years from the closing date to the related distribution date, (2) adding the results, and (3) dividing that sum by the principal amount of the Class A notes as of the closing date.

**Percentages of Original Principal of the Class A Notes Remaining at Certain  
Distribution Dates at Various CPR Percentages**

<b>Distribution Date</b>	<b>0%</b>	<b>2%</b>	<b>4%</b>	<b>6%</b>	<b>8%</b>
Closing Date	100	100	100	100	100
August 25, 2013	94	92	90	89	87
August 25, 2014	87	83	80	77	74
August 25, 2015	79	75	70	66	62
August 25, 2016	72	66	61	56	51
August 25, 2017	65	58	52	46	41
August 25, 2018	57	50	44	38	32
August 25, 2019	50	42	36	30	25
August 25, 2020	43	36	29	23	19
August 25, 2021	36	29	23	17	13
August 25, 2022	30	23	17	12	8
August 25, 2023	23	17	12	7	4
August 25, 2024	17	11	7	3	*
August 25, 2025	10	5	2	0	0
August 25, 2026	4	*	0	0	0
August 25, 2027	0	0	0	0	0

<sup>(\*)</sup> Less than 0.5% but greater than 0.0%.

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No dealer, broker, salesman or other person has been authorized by the issuer or the placement agents to give any information or to make any representations, other than those contained in this offering memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Class A notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the issuer, the master servicer, the subservicers, the guarantee agencies and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the placement agents or their counsel. The placement agents and their counsel have made no independent verification of the information contained herein relating to the issuer, the master servicer, the subservicers or the guarantee agencies. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this offering memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the issuer, the master servicer, the subservicers or the guarantee agencies since the date of this offering memorandum. This offering memorandum does not constitute a contract between the issuer or the placement agents, and any one or more of the purchasers or registered owners of the Class A notes.

The indenture trustee and the eligible lender trustee have not participated in the preparation of and they assume no responsibility for this offering memorandum, and they have not reviewed or undertaken to verify any information contained herein.

IN CONNECTION WITH THIS OFFERING, THE PLACEMENT AGENTS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CLASS A NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Upon issuance, the Class A notes will not be registered under the Securities Act of 1933 and will not be listed on any stock or other securities exchange in the United States. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed on the accuracy of this offering memorandum or approved the Class A notes for sale. Any contrary representation is a criminal offense. The indenture will not be qualified under the Trust Indenture Act of 1939.

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**BRAZOS EDUCATION LOAN  
AUTHORITY, INC.**

**STUDENT LOAN ASSET-BACKED NOTES**

Consisting of

**\$112,200,000 Senior LIBOR Floating Rate Student Loan Asset-  
Backed Notes, Series 2012A-1**



**OFFERING MEMORANDUM**

**Morgan Stanley**

*(Lead Placement Agent)*

**BofA Merrill Lynch**

*(Co-Placement Agent)*