

## NEW ISSUE-BOOK ENTRY ONLY

*In the opinion of Bond Counsel, assuming continuing compliance with certain requirements and covenants, under existing laws, regulations, rulings and judicial decisions, interest on the Series 1994A Bonds is excludable from gross income of the recipients thereof for federal income tax purposes; however, interest on the Series 1994A Bonds constitutes a specific item of tax preference for purposes of the federal alternative minimum tax for individuals and corporations. Bond Counsel is further of the opinion that, pursuant to the Act, the Series 1994A Bonds and the income therefrom are exempt from taxation in the State of Oklahoma. For a more complete description of the opinion of Bond Counsel and a description of certain provisions of the Internal Revenue Code of 1986, as amended, which may affect the federal tax treatment of interest on the Series 1994A Bonds for certain Registered Owners thereof, see the caption "TAX EXEMPTION" herein and the proposed form of opinion of Bond Counsel attached hereto as Appendix H.*

# \$32,200,000

## OKLAHOMA STUDENT LOAN AUTHORITY

### Student Loan Revenue Bonds, Series 1994A

Auction Rate Securities<sup>SM</sup> Consisting Of

\$25,200,000 Series 1994A-1

\$7,000,000 Series 1994A-2

Dated: Date of Issuance Due: September 1, 2020

Dated: Date of Issuance Due: September 1, 2015

Auction Period: 35 days

Auction Period: 1 year

Price of All Bonds: 100%

The Student Loan Revenue Bonds, Series 1994A (the "Series 1994A Bonds") will be issued by the Oklahoma Student Loan Authority (the "Authority") as fully registered bonds without coupons in the principal amount of \$100,000 or any integral multiple thereof. When issued, the Series 1994A Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York which will act as securities depository for the Series 1994A Bonds. Individual purchases of beneficial ownership interests in the Series 1994A Bonds will be made in Book Entry form only.

The principal of and interest on the Series 1994A Bonds are payable by the Trustee, Boatmen's First National Bank of Oklahoma, Oklahoma City, Oklahoma, to DTC, which is in turn to remit such principal and interest to its Participants (as defined herein) which are in turn to remit such principal and interest to the Beneficial Owners (as defined herein) of the Series 1994A Bonds. See the caption "DESCRIPTION OF THE SERIES 1994A BONDS - Securities Depository" herein.

The Series 1994A Bonds will be issued in two subseries as Auction Rate Securities<sup>SM</sup> with variable rates of interest for each applicable Auction Period (as described herein). The rates of interest on the Series 1994A-1 Bonds and the Series 1994A-2 Bonds from the Date of Issuance through January 25, 1995 and May 31, 1995, respectively, will be 5.00% for the Series 1994A-1 Bonds and 4.80% for the Series 1994A-2 Bonds. Thereafter, unless changed as described herein, the Series 1994A-1 Bonds will bear interest for each Interest Period (as defined herein) at an Auction Rate (as described herein) based upon a 35-day Auction Period; and the Series 1994A-2 Bonds will bear interest for each Interest Period at an Auction Rate based upon a one-year Auction Period, each as determined by Bankers Trust Company, New York, New York (the "Auction Agent") pursuant to the Auction Procedures described in "Appendix F - AUCTION PROCEDURES FOR THE AUCTION-RATE SECURITIES" herein, but in no event greater than 16% per annum. Until a Conversion Date or a Period Adjustment Date (each as described herein), if any, interest on the Series 1994A-1 Bonds will be payable semi-annually on each March 1 and September 1, commencing March 1, 1995; and interest on the Series 1994A-2 Bonds will be payable semi-annually on each June 1 and December 1, commencing June 1, 1995, unless changed as described herein.

The Series 1994A Bonds will be issued pursuant to the Bond Resolution (as defined herein) on a parity with the Authority's outstanding \$39,670,000 fixed rate Student Loan Revenue Refunding Bonds, Series 1992A and Series 1992B (together, the "Series 1992A&B Bonds"). Additional bonds or other debt obligations (the "Additional Bonds") may be issued on a parity with the Series 1992A&B Bonds and the Series 1994A Bonds from time to time in the future. The Series 1992A&B Bonds, the Series 1994A Bonds and any Additional Bonds are collectively referred to herein as the "Bonds".

The proceeds of the Series 1994A Bonds will be used by the Authority, among other things: (i) to provide funds to finance Eligible Loans (as defined herein); (ii) to fund capitalized interest; and (iii) to fund the Debt Service Reserve Requirement (as defined herein) for the Series 1994A Bonds. The Bonds will be secured by the Financed Eligible Loans, the Revenues and Recoveries of Principal thereon (each as defined herein), and certain securities and other monies pledged under the Bond Resolution.

The Series 1994A Bonds are subject to optional and mandatory redemption prior to maturity as more fully described in the Bond Resolution and herein under the heading "DESCRIPTION OF THE SERIES 1994A BONDS", and are subject to a mandatory tender upon conversion to a Fixed Rate or a Variable Rate (each as defined herein).

The Bonds, and the interest thereon, are limited and special revenue obligations of the Authority, secured by and payable solely from revenues, funds and other assets specifically pledged therefor, as more particularly described herein and in the Bond Resolution. The Bonds, and the interest thereon, do not constitute or create an obligation (general or special), debt, liability or moral obligation of the State of Oklahoma or of any political subdivision thereof within the meaning of any constitutional or statutory provision whatsoever; and neither the faith and credit nor the taxing power of the State of Oklahoma or any political subdivision thereof is pledged to the payment of the principal of, premium if any, or interest on the Bonds. The Bonds, and the interest thereon, are not personal obligations of the trustees of the Authority and are not a general obligation of the Authority, which has no taxing power.

*The Series 1994A Bonds are offered when, as and if issued by the Authority and received by the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and subject to the approval of legality by Kutak Rock, Oklahoma City, Oklahoma, Bond Counsel. Certain legal matters will be passed upon for the Authority by its special counsel, Roderick W. Durrell, Esq., and for the Underwriter by its counsel Williams & Anderson, Little Rock, Arkansas. It is expected that the Series 1994A Bonds will be delivered through the facilities of DTC in New York, New York on or about December 21, 1994.*

## Smith Barney Inc.

Dated: December 20, 1994

<sup>SM</sup>Service Mark of Smith Barney Inc.

No dealer, broker, salesman or other person has been authorized by the Authority, the State Guarantee Agency or the Underwriter to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 1994A Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been obtained from the Authority, the State Guarantee Agency, and other sources which are believed to be reliable. Such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Underwriter. The information concerning the State Guarantee Agency and DTC has been furnished by the State Guarantee Agency and DTC, respectively, and such information is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the Authority or the Underwriter. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Authority, the State Guarantee Agency, or any other entity described herein after the date hereof. This Official Statement does not constitute a contract between the Authority or the Underwriter and any one or more of the purchasers or Registered Owners of the Series 1994A Bonds.

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THE COVER PAGE AND THIS PAGE CONTAIN CERTAIN INFORMATION FOR QUICK REFERENCE ONLY. THE COVER PAGE AND THIS PAGE ARE NOT A SUMMARY OF THIS ISSUE. INVESTORS MUST READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO THE MAKING OF AN INFORMED INVESTMENT DECISION. "APPENDIX A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" CONTAINS DEFINITIONS OF CERTAIN CAPITALIZED TERMS USED IN THIS OFFICIAL STATEMENT.

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IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 1994A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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THE SERIES 1994A BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 1994A BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF. NEITHER THESE JURISDICTIONS NOR ANY OF THEIR AGENCIES HAVE GUARANTEED OR PASSED UPON THE SAFETY OF THE SERIES 1994A BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON, OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

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OFFICIAL STATEMENT

\$32,200,000

OKLAHOMA STUDENT LOAN AUTHORITY

Student Loan Revenue Bonds, Series 1994A

Auction Rate Securities<sup>SM</sup> Consisting Of

\$25,200,000 Series 1994A-1  
Due: September 1, 2020

\$7,000,000 Series 1994A-2  
Due: September 1, 2015

INTRODUCTION

This Official Statement includes the cover page hereof and all Appendices attached hereto (the "Official Statement"). This Official Statement is being distributed by the Oklahoma Student Loan Authority (the "Authority"), an express trust established for the benefit of the State of Oklahoma (the "State") by a certain Trust Indenture dated August 2, 1972, to furnish information in connection with the offering of its Student Loan Revenue Bonds, Series 1994A (the "Series 1994A Bonds"). The Series 1994A Bonds will be issued by the Authority to provide, among other things, funds to finance Eligible Loans (as defined herein) in its participation in the Federal Family Education Loan ("FFEL") Program.

The Series 1994A Bonds will be issued as Auction Rate Securities<sup>SM</sup> (the "Auction Rate Securities") in two subseries, Series 1994A-1 (the "Series 1994A-1 Bonds") and Series 1994A-2 (the "Series 1994A-2 Bonds"), and will bear interest for the respective Initial Periods (as defined herein) at rates of interest that are set forth on the cover page hereof. Subsequently, the respective interest rates on each subseries of the Auction Rate Securities will be determined from the implementation of the Auction Procedures described in "Appendix F - AUCTION PROCEDURES FOR THE AUCTION RATE SECURITIES" herein, but in no event greater than 16% per annum.

The Series 1994A Bonds will be issued pursuant to the General Resolution for the Issuance of Debt obligations as previously adopted, supplemented, amended and ratified by the trustees of the Authority (the "General Resolution") and pursuant to a Series 1994A Supplemental Bond Resolution (the "Series 1994A Supplemental Resolution") to be adopted prior to delivery of the Series 1994A Bonds. Together, the General Resolution and the Series 1994A Supplemental Resolution are herein referred to as the "Bond Resolution". See "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" herein. In addition, administration of the Trust Estate created for the Series 1994A Bonds will be governed by a certain Trust Agreement dated as of December 1, 1994 (the "Trust Agreement") by and between the Authority and Boatmen's First National Bank of Oklahoma, Oklahoma City, Oklahoma, as trustee thereunder (the "Trustee").

The Series 1994A Bonds also are issued pursuant to the provisions of the Oklahoma Student Loan Act, Title 70, Oklahoma Statutes 1991, Sections 695.1 et seq., as amended (the "Student Loan Act"), and the Oklahoma Trusts for Furtherance of Public Functions Act, Title 60, Oklahoma Statutes 1991, Sections 176 to 180.3, inclusive (the "Public Trust Act"). The "Student Loan Act" and the "Public Trust Act" are collectively referred to herein as the "Act".

The Series 1994A Bonds will be issued on a parity with the Authority's \$39,670,000 outstanding aggregate principal amount of fixed rate Student Loan Revenue Refunding Bonds, Series 1992A and Series 1992B (together, the "Series 1992A&B Bonds") which were issued pursuant to the General Resolution and a Series 1992A and Series 1992B Supplemental Bond Resolution adopted by the trustees of the Authority on November 6, 1992 (the "Series 1992A&B Supplemental Resolution").

<sup>SM</sup>Service Mark of Smith Barney Inc.

The Series 1994A Bonds constitute additional bonds for purposes of the Series 1992A&B Supplemental Resolution. Furthermore, the Series 1992A&B Supplemental Resolution and the Series 1994A Supplemental Resolution provide for the issuance of additional bonds (the "Additional Bonds") secured on a parity with the Series 1992A&B Bonds and the Series 1994A Bonds. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1994A BONDS" herein. The Series 1992A&B Bonds, the Series 1994A Bonds and any Additional Bonds are collectively referred to herein as the "Bonds".

Certain capitalized terms used in this Official Statement are defined in "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" herein. All other capitalized terms used in this Official Statement and not otherwise defined herein have the same meanings ascribed to such terms in the Bond Resolution, unless the context clearly indicates otherwise.

The proceeds of the Series 1994A Bonds will be used by the Authority, among other things: (i) to provide funds to finance Eligible Loans (as defined herein); (ii) to fund capitalized interest; and (iii) to fund the Debt Service Reserve Requirement (as defined herein) for the Series 1994A Bonds. The costs associated with the issuance of the Series 1994A Bonds will be paid by the Authority from certain of its general funds. Eligible Loans held under the Bond Resolution and the Trust Agreement are referred to herein as "Financed Eligible Loans". The education loan promissory notes evidencing the Financed Eligible Loans and related loan documentation will be held by the Trustee, acting as "Custodian" pursuant to the provisions of a certain Master Custodian Services Agreement dated September 27, 1994 between the custodian and the Authority. See the caption "THE AUTHORITY"; "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION"; and "Appendix B - DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein.

Financed Eligible Loans will be guaranteed: (i) by the Oklahoma State Regents for Higher Education (the "Regents"), acting as the State Guarantee Agency (the "State Guarantee Agency") in administering the Student Educational Assistance Fund (the "Guarantee Fund"); or, (ii) by other Guarantors of Eligible Loans qualified under the provisions of the Bond Resolution to act in such capacity; or (iii) in certain instances by the Secretary (the "Secretary") of the United States Department of Education (the "USDE"). The respective Guarantors are reinsured, subject to various terms and conditions, by the Secretary for reimbursement from 78% to 100% of the amounts expended in payment of claims by eligible lenders (including the Authority) regarding education loans guaranteed by the respective Guarantors. As of September 30, 1994, approximately 98.6% of the FFEL Program loans held by the Authority were guaranteed by the State Guarantee Agency and approximately 1.4% were guaranteed by another Guarantor. See the caption "GUARANTEE AGENCIES" and "Appendix C - THE STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION" herein.

The Authority services its education loans internally on a remote servicing system database provided by UNIPAC Service Corporation ("UNIPAC"), Aurora, Colorado. See the caption "THE AUTHORITY - Loan Servicing" herein. Pursuant to the Bond Resolution, the Authority is required to perform all services and duties customary to the servicing of education loans in compliance with all standards and procedures provided for in the Higher Education Act of 1965, as amended (the "Higher Education Act").

Payment of the principal of and interest on the Series 1994A Bonds will be secured on a parity with the Series 1992A&B Bonds and any Additional Bonds by the pledge effected by the Bond Resolution with respect to certain revenues and assets, as described herein, including Revenues and Recoveries of Principal (as defined herein) received with respect to Financed Eligible Loans and moneys, investments and other assets in certain funds and accounts established under the Bond Resolution. See the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1994A BONDS" herein.

The Bonds, and the interest thereon, are limited and special revenue obligations of the Authority, secured by and payable solely from revenues, funds

and other assets specifically pledged therefor, as more particularly described herein and in the Bond Resolution. The Bonds, and the interest thereon, do not constitute or create an obligation (general or special), debt, liability or moral obligation of the state or of any political subdivision thereof within the meaning of any constitutional or statutory provision whatsoever; and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, premium if any, or interest on the Bonds. The Bonds, and the interest thereon, are not personal obligations of the trustees of the Authority and are not a general obligation of the Authority, which has no taxing power.

The Trustee is acting as Paying Agent, Authenticating Agent and Registrar pursuant to the Bond Resolution and the Trust Agreement. See the caption "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" herein for certain provisions regarding the rights, duties and obligations of the Trustee.

While the Series 1994A Bonds are outstanding as Auction Rate Securities, they will be subject to, among other things, varying interest Auction Rates, changes in Auction Periods and mandatory tender for Conversion to a Fixed Rate or a Variable Rate as determined by the Authority, by Smith Barney Inc. as the initial "Market Agent" pursuant to the provisions of a certain Market Agent Agreement dated as of December 1, 1994 (the "Market Agent Agreement") by and among the Authority, the Trustee and Smith Barney Inc., and by Bankers Trust Company, New York, New York, as the initial "Auction Agent" pursuant to the provisions of a certain Auction Agent Agreement dated as of December 1, 1994 (the "Auction Agent Agreement") by and among the Authority, the Trustee and the Auction Agent. In order to conduct the Auctions, the Auction Agent will, subject to approval by the Authority, enter into one or more Broker-Dealer Agreements (the "Broker-Dealer Agreements") in a form included as an exhibit to the Auction Agent Agreement with securities Broker-Dealers, including Smith Barney Inc., that desire to participate in the Auctions.

The descriptions of the Series 1994A Bonds and of the documents authorizing and securing the Series 1994A Bonds contained herein do not purport to be definitive or comprehensive. All references herein to such documents are qualified in their entirety by reference to the Series 1994A Bonds and such documents. Copies of the documents may be examined at the office of the Trustee located at 211 North Robinson Avenue, Suite 1100 North, Oklahoma City, Oklahoma 73102, Attention: Corporate Trust Services; or, at the offices of the Authority located at 4545 North Lincoln Boulevard, Suite 66, Oklahoma City, Oklahoma 73105, Attention: President. During the offering of the Series 1994A Bonds, copies of such documents may be examined at the principal offices of Smith Barney Inc. located at 1345 Avenue of the Americas, 46th Floor, New York, New York 10105, Attention: Debt Origination/Securitization.

#### DESCRIPTION OF THE SERIES 1994A BONDS

The Series 1994A Bonds are available in Book Entry form only. See the caption "DESCRIPTION OF THE SERIES 1994A BONDS - Securities Depository" herein. As long as Cede & Co., as nominee of The Depository Trust Company (the "DTC"), New York, New York, is the Registered Owner of the Series 1994A Bonds, references herein to the Registered Owners of the Series 1994A Bonds mean Cede & Co. and do not mean the Beneficial Owners (as defined herein) of the Series 1994A Bonds.

#### General

The series 1994A Supplemental Resolution to be adopted by the trustees of the Authority will authorize, among other things: (i) the issuance of the Series 1994A Bonds; (ii) the transfer of fully disbursed Financed Eligible Loans to the Trust Estate; (iii) the creation and administration of various Funds and Accounts, including the Series 1994A Debt Service Reserve Account in its required amount; and (iv) the execution and delivery of the Series 1994A

Supplemental Resolution and the various related documents pertaining to the issuance of the Series 1994A Bonds.

The Series 1994A Bonds will be issued only as fully registered bonds without coupons in the principal amount of \$100,000 or any integral multiple thereof. When issued, DTC will act as securities depository (the "Securities Depository") for the Series 1994A Bonds. The Series 1994A Bonds will be issued in fully registered form registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of each subseries of the Series 1994A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. Individual purchases will be made in Book Entry form only and purchasers of beneficial ownership interests (the "Beneficial Owners") will not receive certificates representing their interests in the Series 1994A Bonds.

#### Interest Rates on the Series 1994A Bonds

For the Initial Period beginning on the Date of Issuance and ending: (i) on January 25, 1995 with respect to the Series 1994A-1 Bonds; and (ii) on May 31, 1995 with respect to the 1994A-2 Bonds, each subseries of the Series 1994A Bonds will bear interest at the interest rate for such subseries of the Auction Rate securities that is set forth on the cover page hereof. Thereafter, unless changed as described herein, Series 1994A-1 Bonds will bear interest for each Interest Period at an Auction Rate based upon a 35-day Auction Period; and the Series 1994A-2 Bonds will bear interest for each Interest Period at an Auction Rate based upon a one-year Auction Period, each as determined by the Auction Agent pursuant to the Auction Procedures described in Appendix F hereto, but in no event greater than 16% per annum.

Each Auction Period will commence on and include the first Business Day following the expiration of the immediately preceding Auction Period and terminate on and include the day immediately preceding the next Rate Adjustment Date. The Rate Determination Date for the Series 1994A-1 Bonds will generally be the fifth Wednesday following the preceding Rate Adjustment Date, and for the Series 1994A-2 Bonds will be a date not more than ten (10) Business Days prior to June 1 of each year, but subject to adjustment as described in "Appendix F - AUCTION PROCEDURES FOR THE AUCTION RATE SECURITIES -- Changes in Auction Terms" herein.

Interest on the Series 1994A-1 Bonds, until a Conversion Date (if any) or a Period Adjustment Date (if any) will be payable semi-annually on each March 1 and September 1, commencing March 1, 1995. Interest on the Series 1994A-2 Bonds, until a Conversion Date (if any) or a Period Adjustment Date (if any) will be payable semi-annually on each June 1 and December 1, commencing June 1, 1995 and at maturity. Interest on each subseries of the Auction Rate Securities will accrue for each Interest Period, and will be payable in arrears on each succeeding Interest Payment Date. Interest Payment Dates may change in the event of a change in the length of one or more Auction Periods. See "Appendix F - AUCTION PROCEDURES FOR THE AUCTION RATE SECURITIES -- Changes in Auction Terms (Changes in the Interest Payment Dates)" herein.

The amount of interest accruing to Beneficial Owners of the Auction Rate Securities in respect of each \$100,000 in principal amount thereof for any Interest Period or part thereof will be calculated by applying the Auction Rate for such Interest Period, or part thereof, to the principal amount of \$1,000, multiplying such sum by the actual number of days in the Interest Period (or part thereof concerned) divided by 360, and rounding the resultant figure to the nearest cent. In the event an Interest Payment Date occurs in any Interest Period on a date other than the first day of such Interest Period, the Trustee, after confirming the calculation required above, will calculate the portion of the amount of interest payable on such Interest Payment Date and the portion payable on the next succeeding Interest Payment Date. The Auction Agent will make the calculation described above no later than the close of business on each Rate Determination Date and will communicate it to the Trustee not later than 12:00 Noon Eastern Time on the next Business Day. The Trustee will promptly



confirm the calculation and notify the Auction Agent of any error or discrepancy it believes exists in the calculation.

Interest payments on each subseries of the Series 1994A Bonds are to be made by the Trustee to the persons who are the Registered Owners of such subseries of the Series 1994A Bonds, as of the Business Day immediately preceding each Interest Payment Date for such Series 1994A Bonds (the "Record Date"). The Series 1994A Bonds will be registered initially in the name of Cede & Co., as nominee of DTC, which is acting as the securities Depository for the Bonds. See the caption "DESCRIPTION OF THE SERIES 1994A BONDS - Securities Depository" herein for a description of how the securities Depository, as the Registered Owner of the Series 1994A Bonds, is expected to disburse such payments to the Beneficial Owners.

Payments of defaulted interest will be payable to the person in whose name the Series 1994A Bonds are registered at the close of business on a special record date (the "Special Record Date") fixed therefor by the Trustee, which will not be more than fifteen (15) days nor less than ten (10) days prior to the date of the proposed payment of defaulted interest. The Trustee will promptly notify the Authority of the Special Record Date and mail notice to each Registered Owner of a Series 1994A Bond as to which Defaulted Interest is payable, no less than ten (10) days before the Special Record Date, of the date of the proposed payment of such defaulted interest.

The Auction Rate for each subseries of the Auction Rate Securities for each Auction Period will be determined in accordance with the Auction Procedures described in "Appendix F - AUCTION PROCEDURES FOR THE AUCTION RATE SECURITIES" herein provided that:

A. If a notice of an adjustment in the percentages used to determine the Maximum Rate, the All-Hold Rate and the Non-Payment Rate has been given by the Market Agent and such adjustment has not taken effect because of a failure to satisfy the condition set forth in paragraph B in "Appendix F - AUCTION PROCEDURES FOR THE AUCTION RATE SECURITIES -- Auction Procedures (Adjustment in Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates)", then an Auction will not be held on the Rate Determination Date immediately preceding the next succeeding Rate Adjustment Date and the interest rate on each subseries of the Auction Rate Securities for such next succeeding Interest Period will be the Maximum Rate calculated on such Rate Determination Date; or

B. If, on any Rate Determinate Date, an Auction for any subseries of the Auction Rate Securities is not held for any reason, the interest rate on such subseries of the Auction Rate Securities for the next succeeding Interest Period will be the Maximum Rate calculated on such Rate Determination Date; and

C. Notwithstanding the foregoing,

1. If the ownership of any subseries of the Auction Rate Securities is no longer maintained in Book Entry form, the interest rate on such subseries of Auction Rate Securities for any Interest Period commencing after the delivery of certificates representing such Auction Rate Securities will be the Maximum Rate calculated on the Business Day immediately preceding the first day of such Interest Period, or

2. If a Payment Default has occurred, the interest rate on each subseries of the Auction Rate Securities for the Interest Period commencing on or immediately after such Payment Default and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two (2) Business Days after, such Payment Default is cured in accordance with the Series 1994A Supplemental Resolution, will be the Non-Payment Rate calculated on the first day of each such Interest Period; or

3. If a proposed conversion or change in Interest Period has failed, as described below under the caption "DESCRIPTION OF THE SERIES 1994A BONDS - Mandatory Tender of Auction Rate Securities", the interest rate on such

subseries of the Auction Rate Securities subject to the failed conversion will be the Maximum Rate on the failed Conversion Date or Period Adjustment Date, as applicable, for the Interest Period commencing on such date.

The Auction Agent will give written notice promptly to the Trustee and the Authority of the Auction Rate (unless the Auction Rate is the Non-Payment Rate) for each subseries of the Auction Rate Securities. The Trustee will notify the Registered Owners of the Auction Rate Securities of the Auction Rate for each subseries for the next Auction Period not later than the second Business Day of such Auction Period.

#### **Mandatory Tender of Auction Rate Securities**

The Auction Rate Securities are subject to mandatory tender to the Authenticating Agent (which initially is the Trustee) for purchase prior to maturity on any Period Adjustment Date or Conversion Date for such subseries (a "Mandatory Tender Date") at a purchase price equal to 100% of the principal amount thereof plus accrued interest, if any, to such Mandatory Tender Date.

In connection with any mandatory tender for purchase of any subseries of the Auction Rate Securities upon a Mandatory Tender Date, the Trustee will include in the notice mailed to Registered Owners of the Auction Rate Securities a further notice of mandatory tender for purchase which in substance will state the following: (i) the Period Adjustment Date or the Conversion Date; and (ii) that no Registered Owners of such Auction Rate Securities will have the right to retain their Auction Rate Securities on and after the Mandatory Tender Date but that all Registered Owners will be required to tender or will be deemed to have tendered their Auction Rate Securities for payment on the Mandatory Tender Date, subject to the return of such Auction Rate Securities to such Registered Owners in the event of a failed conversion to a Fixed Rate or Variable Rate, as the case may be.

Registered Owners of any Auction Rate Securities subject to mandatory tender will be required to tender their Auction Rate Securities to the Authenticating Agent (which initially is the Trustee) for payment on the Mandatory Tender Date at a price equal to the principal amount thereof plus interest accrued thereon to the Mandatory Tender Date. Any Auction Rate Securities subject to mandatory tender on such Mandatory Tender Date for which there has been irrevocably deposited with the Authenticating Agent (which is initially the Trustee) amounts sufficient to pay the purchase price of such Auction Rate Securities, and undelivered Auction Rate Securities will no longer be entitled to the benefits of the Bond Resolution, except for the purpose of payment of the purchase price therefor.

No later than the seventh day before any Mandatory Tender Date, the Trustee will notify the Market Agent and the Authenticating Agent, by telephone promptly confirmed in writing, of the principal amount of the subseries of the Auction Rate Securities Outstanding subject to mandatory tender, and such notice from the Trustee will be treated as a Notice and Demand for all purposes of the Series 1994A Supplemental Resolution, whether or not the Auction Rate Securities referred to therein are delivered to the Authenticating Agent on such Mandatory Tender Date; provided that payment of the purchase price of such Auction Rate Securities will be made on or after such Mandatory Tender Date only upon delivery and surrender thereof to the Authenticating Agent.

#### **Redemption Provisions**

The Series 1994A Bonds are subject to redemption by or on behalf of the Authority upon notice as described under the caption "Notice of Redemption" below. If less than all Series 1994A Bonds that are Outstanding are to be redeemed, the particular bonds to be redeemed will be selected (and redeemed only in Authorized Denominations or any integral multiple thereof) as described under the caption "Partial Redemption" below.

*Optional Redemption.* Any of the Auction Rate securities are, or series 1994A Bonds converted to a Variable Rate will be, subject to redemption prior

to maturity at the option of the Authority, in whole or in part, on any Rate Adjustment Date for such subseries from any funds at a redemption price equal to the principal amount of the Series 1994A Bonds being redeemed, plus accrued interest, if any, to the date of redemption. Any Series 1994A Bonds converted to a Fixed Rate will be subject to redemption prior to maturity at the option of the Authority, in whole or in part, on any date on or after the tenth anniversary of the conversion of such subseries at a redemption price equal to the principal amount of the Series 1994A Bonds being redeemed, plus accrued interest, if any, to the date of redemption.

**Mandatory Redemption.** Outstanding Series 1994A Bonds are subject to redemption prior to maturity at the option of the Authority, in whole or in part: (i) on any Rate Adjustment Date for any subseries of Auction Rate Securities or, after conversion, any subseries of the Series 1994A Bonds bearing interest at a Variable Rate; or (ii) on any Interest Payment Date after conversion with respect to the Series 1994A Bonds bearing interest at a Fixed Rate, at a redemption price equal to the principal amount thereof plus accrued interest, if any, to the date of redemption thereof from certain moneys in the Series 1994A Redemption Account of the sinking Fund available therefor pursuant to the Series 1994A Supplemental Resolution. Moneys are transferred to the Series 1994A Redemption Account from unspent proceeds of the Series 1994A Bonds, from Recoveries of Principal and Revenues not required for payment of debt service or Program Expenses. See "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION -- Funds and Accounts" herein.

**Other Purchases and Mandatory Redemptions.** If converted to a Variable Rate, each subseries of the Series 1994A Bonds bearing a Variable Rate also will be subject to demand for purchase by Registered Owners thereof and mandatory redemption by the Authority prior to maturity on the occurrence of certain events and at a termination date for the corresponding letter of credit. See "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" herein.

#### **Partial Redemption**

If less than all of the Series 1994A Bonds are to be redeemed pursuant to the Series 1994A Supplemental Resolution, Series 1994A Bonds of each subseries to be redeemed will be redeemed from each such subseries on a pro rata basis. The Series 1994A Bonds of the same subseries to be redeemed will be selected by lot in such manner as the Trustee determines, subject to appropriate rounding by the Trustee to effect redemption in authorized denominations.

In case a Series 1994A Bond is of a denomination larger than an Authorized Denomination, a portion of such Series 1994A Bond (in an Authorized Denomination), or integral multiples thereof, may be redeemed. Upon surrender of any Series 1994A Bond for redemption in part only, the Authority will execute and the Trustee will authenticate and deliver to the Registered Owner thereof, the cost of which shall be paid by the Authority, a new Series 1994A Bond or Series 1994A Bonds of the same subseries and of authorized denominations, in an aggregate principal amount equal to the unredeemed portion of the Series 1994A Bond surrendered.

#### **Notice of Redemption**

The Trustee will give notice of any redemption of the Series 1994A Bonds not less than fifteen (15) days prior to the Redemption Date, to the Registered Owners of the Series 1994A Bonds to be redeemed by mailing such notice by first class mail, postage prepaid, to such Registered Owners at their addresses appearing in the registration books maintained by the Trustee, but no defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of any Series 1994A Bonds.

Any such notice will state the full name of the issue including the dated date and the maturity date, and, among other things: (i) the Redemption Date; (ii) the Redemption Price; (iii) the numbers of the Series 1994A Bonds being redeemed and the principal amount of each Series 1994A Bond being redeemed; (iv) the CUSIP number; (v) the aggregate principal amount of the Series 1994A Bonds

being redeemed; (vi) that, on the Redemption Date, payment will be made upon presentation and surrender of the Series 1994A Bonds to be redeemed and that interest on such Series 1994A Bond (or portion thereof) will cease to accrue on and after such date; (vii) the place or places where such Series 1994A Bonds are to be surrendered for payment; and (viii) the name of the Trustee and an address and telephone number for contacting the Trustee.

Notice of redemption having been given as described above, such Series 1994A Bonds (or portions thereof) to be redeemed will, on the Redemption Date, become due and payable upon presentation and surrender thereof at the Redemption Price specified, plus accrued interest thereon, if any, to the Redemption Date. If on the Redemption Date, moneys for the redemption of all the Series 1994A Bonds to be redeemed, together with interest to the Redemption Date, are held by the Trustee so as to be available therefor on the Redemption Date, on and after the Redemption Date interest on the Series 1994A Bonds or portions thereof so called for redemption will cease to accrue and become payable. If moneys are not so available on the Redemption Date, such Series 1994A Bonds will continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

No assurance can be given by the Authority or the Trustee that DTC will distribute to the Participants, or the Participants will distribute to the Beneficial Owners: (i) payments of principal and interest on the Series 1994A Bonds paid to DTC (or its nominee), as the Registered Owner; or (ii) any redemption or other notices; or (iii) that DTC or the Participants will serve and act on a timely basis or in the manner described in this Official Statement.

#### **Transfer and Exchange**

Notwithstanding the following, for so long as the Series 1994A Bonds are available only in the Book Entry system of DTC as the Securities Depository, transfers and exchanges of the Series 1994A Bonds by the Beneficial Owners thereof shall occur as described under the caption "DESCRIPTION OF THE SERIES 1994A BONDS - Securities Depository" herein.

Upon surrender for transfer of any Series 1994A Bond at the principal corporate trust office of the Trustee, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered owner or attorney duly authorized in writing, the Authority will execute and the Trustee will authenticate and deliver in the name of the transferee or transferees a new fully registered Series 1994A Bond or Series 1994A Bonds for a like aggregate principal amount of the same subseries and maturity.

Series 1994A Bonds may be exchanged at the principal corporate trust office of the Trustee for a like aggregate principal amount of fully registered Series 1994A Bonds of the same subseries and maturity in Authorized Denominations. The Authority will execute and the Trustee will authenticate and deliver Series 1994A Bonds which the Registered owner making the exchange is entitled to receive.

Neither the Authority nor the Trustee will be required to register the transfer of or to exchange: (i) any Series 1994A Bonds during the fifteen (15) calendar days preceding the selection of such Series 1994A Bonds to be redeemed or thereafter until after the close of business on the day of first mailing of notice of such redemption thereof; or (ii) any Series 1994A Bonds which have been selected for redemption.

As to any Series 1994A Bond, the person in whose name the same shall be registered shall be deemed and regarded as the absolute owner thereof for all purposes, and payment of either principal or interest on any fully registered Series 1994A Bond shall be made only to or upon the written order of the Registered Owner thereof or their legal representative, but such registration may be changed as hereinabove provided. All such payments shall be valid and effectual to satisfy and discharge the liability upon such Series 1994A Bond to the extent of the sum or sums paid.

The Trustee will require the payment by any Registered Owner requesting exchange or transfer of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer:

#### **Lost, Stolen, Destroyed and Mutilated Series 1994A Bonds**

Upon receipt by the Trustee of evidence satisfactory to the Trustee of the ownership of and the loss, theft, destruction or mutilation of any Series 1994A Bond and, in the case of a lost, stolen or destroyed Series 1994A Bond, of indemnity satisfactory to the Trustee and the Authority, and upon surrender and cancellation of the Series 1994A Bond, if mutilated: (i) the Authority shall execute, and the Trustee shall authenticate and deliver, a new Series 1994A Bond of the same subseries, maturity and denomination in lieu of such lost, stolen, destroyed or mutilated Series 1994A Bond; or (ii) if such lost, stolen, destroyed or mutilated Series 1994A Bond shall have been matured or have been called for redemption, in lieu of executing and delivering a new Series 1994A Bond, the Authority may pay such Series 1994A Bond. The applicant for any such new Series 1994A Bond may be required to pay all expenses and charges of the Authority and of the Trustee in connection with the issuance of such Series 1994A Bond.

#### **Securities Depository**

DTC will act as Securities Depository for the Series 1994A Bonds. The Series 1994A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered Series 1994A Bond certificate will be issued for each maturity of the Series 1994A Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC 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 securities that its participants ("Participants") deposit with DTC. DTC also facilitates the settlement among Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission.

Purchases of Series 1994A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1994A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1994A Bond (the "Beneficial Owner") is in turn to be recorded on the Direct or Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series 1994A Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Series 1994A Bonds, except in the event that use of the Book Entry system for the Series 1994A Bonds is discontinued.

To facilitate subsequent transfers, all Series 1994A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1994A Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 1994A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1994A Bonds are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the Series 1994A Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to Series 1994A Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series 1994A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 1994A Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payable date in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on payable dates. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Trustee, or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Authority or the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Series 1994A Bonds at any time by giving reasonable notice to the Authority or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Series 1994A Bond certificates are required to be printed and delivered.

The Authority may decide to discontinue use of the system of Book Entry transfers through DTC (or a successor securities depository). In that event, Series 1994A Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book Entry system has been obtained from DTC (Sample Official Statement Language Describing Book-Entry-Only Issuance, P-1319A 11/91) and from other sources which the Authority believes to be reliable, but the Authority, Bond Counsel, the Underwriter and its counsel, and the Trustee take no responsibility for the accuracy thereof.

THE AUTHORITY, BOND COUNSEL, THE TRUSTEE AND THE UNDERWRITER (AND ITS COUNSEL) CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DTC PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 1994A BONDS: (i) PAYMENTS OF PRINCIPAL OF OR INTEREST AND PREMIUM, IF ANY, ON THE SERIES 1994A BONDS; (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 1994A BONDS; OR (iii) REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNERS OF THE

SERIES 1994A BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC OR ITS PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE AUTHORITY, THE TRUSTEE NOR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS (DIRECT OR INDIRECT) OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO: (i) THE SERIES 1994A BONDS; (ii) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; (iii) THE PAYMENT BY ANY DTC PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST OR PREMIUM, IF ANY, ON THE SERIES 1994A BONDS; (iv) THE DELIVERY BY ANY DTC PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE BOND RESOLUTION TO BE GIVEN TO REGISTERED OWNERS; (v) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE SERIES 1994A BONDS; OR (vi) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS REGISTERED OWNER.

In reading this official statement, it should be understood that while the Series 1994A Bonds are in the Book Entry system, references in other sections of this Official Statement to Registered Owner should be read to include the Beneficial Owners of the series 1994A Bonds, but: (i) all rights of ownership must be exercised through DTC and the Book Entry system; and (ii) notices that are to be given to Registered Owners by the Authority or the Trustee will be given only to DTC.

#### SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1994A BONDS

##### General

The Bond Resolution provides that the Bonds, including the series 1994A Bonds, and the principal of and interest thereon and related thereto, are limited and special revenue obligations of the Authority secured by and payable on a parity solely from revenues, funds and other assets specifically pledged therefor, including among other things, all rights, title, interest and privileges of the Authority with respect to:

- A. The Financed Eligible Loans and any other student loans financed by the Authority by the expenditure of amounts pledged to secure the Bonds under the Bond Resolution (including the education loan promissory notes evidencing such indebtedness and related loan documentation);
- B. The proceeds from the sale of the Series 1994A Bonds not applied to the acquisition of Eligible Loans;
- C. Moneys, Investment Securities or Eligible Loans (including the education loan promissory notes evidencing such indebtedness and related loan documentation) in an amount at least equal to \$4,585,000 deposited by the Authority into the Trust Estate created for the Series 1994A Bonds as additional collateral security for the Bonds; and
- D. The Revenues, Recoveries of Principal, moneys, evidences of indebtedness and securities in and payable into the Funds and Accounts created by the Bond Resolution and held in trust pursuant to the Bond Resolution and the Trust Agreement (excluding the Rebate Fund), including any contract or evidence of indebtedness or the rights of the Authority to receive any of the same, whether now existing or hereafter coming into existence, and whether now or hereafter acquired.

See "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" herein. To the extent that the amounts on deposit in all Funds and Accounts in the Trust Estates created for the Bonds exceed 108% of the principal of, and accrued interest on, Bonds Outstanding, then such excess may be

transferred to the Authority free and clear of the lien of the Bond Resolution and the Trust Agreements.

The Bonds, and the interest thereon, do not constitute or create an obligation (general or special), debt, liability or moral obligation of the State or of any political subdivision thereof within the meaning of any constitutional or statutory provision whatsoever; and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of, premium if any, or interest on the Bonds. The Bonds, and the interest thereon, are not personal obligations of the trustees of the Authority and are not a general obligation of the Authority, which has no taxing power.

#### Sufficiency of Cash Flows

*Series 1994A Bonds.* Based upon its review of cash flow projections prepared by Smith Barney Inc. (the "Underwriter") using various stressful cash flow assumptions and scenarios, the Authority expects that the Revenues and Recoveries of Principal on the Eligible Loans in the Trust Estates for the Bonds, plus amounts on deposit in the Series 1994A Debt Service Reserve Account and other Accounts created by the Series 1994A Supplemental Resolution, will be sufficient to meet principal and interest payments on the Bonds and all Program Expenses and rebate or other required payments, if any.

See "Appendix E - CASH FLOW ASSUMPTIONS" herein for a description of certain assumptions used by the Authority and the Underwriter in estimating such amounts securing the Series 1994A Bonds, the Series 1992A&B Bonds and Program Expenses, and a description of certain factors that could affect the sufficiency of such amounts to meet such payments. For a description of the terms and conditions of the various payments relating to the Eligible Loans, see also, the captions "THE AUTHORITY" and "GUARANTEE AGENCIES" herein, and "Appendix B - DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM", and "Appendix C - STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION" herein.

*Series 1992A&B Bonds.* The Series 1994A Bonds are issued on a parity with the Series 1992A&B Bonds which are outstanding in the aggregate principal amount of \$39,670,000. As a result of the parity issuance, in the event of an insufficiency in either trust estate, monies may be transferred from the other trust estate to prevent a default in the payment of the Series 1992A&B Bonds or the series 1994A Bonds.

The Financed Eligible Loans in the trust estate for the Series 1992A&B Bonds are the basic assets for cash flow on the Series 1992A&B Bonds. At September 30, 1994, the Eligible Loans in the trust estate for the Series 1992A&B Bonds had a current principal balance of \$35,212,554. The following is a brief overview of the characteristics of the Eligible Loans portfolio for the Series 1992A&B Bonds at September 30, 1994.

<u>Education Loan Type</u>	<u>Per Cent</u>
Stafford (subsidized)	99.5%
Unsubsidized Stafford	0.2
PLUS	0.2
SLS	<u>0.1%</u>
Total	<u>100.0%</u>



<u>Loan Status</u>	<u>Per Cent</u>
In-School	12.5%
Grace	8.0
Deferred	8.8
Repayment - Current	58.6
Repayment - Delinquent	9.6
Claims	<u>2.5%</u>
<b>Total</b>	<b><u>100.0%</u></b>

<u>School Type</u>	<u>Per Cent</u>
University - 4 Year	81.1%
College - 2 Year	4.9
Proprietary	<u>14.0%</u>
<b>Total</b>	<b><u>100.0%</u></b>

As of September 30, 1994, the average borrower indebtedness of the Series 1992A&B Bonds portfolio was approximately \$4,200. Also as of that date, the ratio of the aggregate market valuation (Eligible Loans at current principal balance plus accrued interest and short-term Investment Securities at cost) of the assets of the trust estate, divided by the outstanding aggregate principal amount of the Series 1992A&B Bonds plus accrued interest and other outstanding and accrued liabilities was an asset coverage ratio of 103%.

Based on a cash flow certificate by the Authority and cash flow projections prepared by the Underwriter, the recycling period for reinvesting cash flows into Eligible Loans was permitted by Moody's Investors Service, Inc. ("Moody's") to be extended to March 1, 1996. As of September 30, 1994, there was approximately \$2,213,000 available for recycling into additional Eligible Loans. The Authority has recycled these monies into additional Eligible Loans.

Based upon its review of cash flow projections prepared by the Underwriter using various stressful cash flow assumptions and scenarios, the Authority expects that the Revenues and Recoveries of Principal on the Eligible Loans in the Trust Estates for the Bonds, plus amounts on deposit in the Series 1992A&B Debt Service Reserve Account and other Accounts and subAccounts created by the Series 1992A&B Supplemental Resolution will be sufficient to meet principal and interest payments on the Bonds and all Program Expenses and rebate or other required payments, if any. See the caption "RATING" herein, and see "Appendix E - CASH FLOW ASSUMPTIONS" herein for a description of certain assumptions used by the Authority and the Underwriter in estimating such amounts securing the Series 1992A&B Bonds, the Series 1994A Bonds and Program Expenses.

*Disclaimer.* No assurances can be given that actual receipts of Revenues and Recoveries of Principal, actual expenditures related to the Trust Estates or Financing of Eligible Loans will occur as projected. Consequently, actual results should be expected to vary from projected results and such variation may be material. See the caption "INVESTMENT CONSIDERATIONS" herein.

#### **Debt Service Reserve Accounts**

*Series 1994A Debt Service Reserve Account.* The Series 1994A Bonds also are secured by amounts on deposit in the Series 1994A Debt Service Reserve Account established pursuant to the Series 1994A Supplemental Resolution. The Series 1994A Debt Service Reserve Account of the Sinking Fund will be established from proceeds of the Series 1994A Bonds and maintained in an amount equal to six percent (6%) of the Series 1994A Bonds Outstanding.

Upon issuance of the Series 1994A Bonds, the Authority expects to enter into a flexible repurchase agreement with respect to amounts in the Series 1994A Debt Service Reserve Account. The repurchase agreement will be for a term equal to the final maturity of the Series 1994A Bonds and will be required to be

collateralized by U.S. Treasury securities or certain government agency securities with a market value at least equal to the requirements of Moody's Overcollateralization Guidelines and Tables in relation to the aggregate principal amount of Series 1994A Bonds outstanding.

Amounts on deposit in the Series 1994A Debt Service Reserve Account will be used to pay the principal of and interest on the Series 1994A Bonds to the extent amounts on deposit in the Series 1994A Principal Account and Series 1994A Interest Account of the Sinking Fund are insufficient to make such payments. In addition, under certain circumstances of deficiency, amounts on deposit in the Series 1994A Debt Service Reserve Account may be used to pay principal of and interest on the Series 1992A&B Bonds and any Additional Bonds.

**Series 1992A&B Debt Service Reserve Account.** A "Series 1992A&B Debt Service Reserve Account" was established for the Series 1992A&B Bonds pursuant to the Series 1992A&B Supplemental Resolution in an amount equal to six percent (6%) of the Series 1992A&B Bonds Outstanding. This account is invested in a collateralized repurchase agreement with Postipaanki Ltd.

Amounts on deposit in the Series 1992A&B Debt Service Reserve Account will be used to pay the principal of and interest on the Series 1992A&B Bonds to the extent amounts on deposit in the Series 1992A&B Principal Accounts and Series 1992A&B Interest Accounts of the sinking Fund are insufficient to make such payments. In addition, under certain circumstances of deficiency, amounts on deposit in the Series 1992A&B Debt Service Reserve Account may be used to pay principal of and interest on the Series 1994A Bonds and any Additional Bonds.

#### **Additional Bonds**

Additional Bonds may be issued under the Bond Resolution, on a parity with the Bonds, including the Series 1994A Bonds, if the respective ratings on the Bonds, including the Series 1994A Bonds, Outstanding will not be withdrawn or reduced as a result of such issuance.

In addition, the Bond Resolution requires a Debt Service Reserve Requirement equal to six percent (6%) of the principal amount of all Bonds then Outstanding, and provides that no Additional Bonds may be issued thereunder which have a superior lien or, unless subsequently authorized by law, a subordinate lien on the Trust Estate.

#### **ESTIMATED SOURCES AND USES OF FUNDS**

The Authority expects to apply the proceeds from the sale of the Series 1994A Bonds and other moneys as follows:

##### Sources

Bond Proceeds	\$32,200,000
Advance by the Authority	646,495
Total	<u>\$32,846,495</u>

##### Uses

Deposit to Series 1994A Student Loan Account	\$29,418,835
Deposit to Series 1994A Interest Account	1,250,000
Deposit to Series 1994A Debt Service Reserve Account	1,932,000
Costs of Issuance	89,620
Underwriting Fees and Expenses	156,040
Total	<u>\$32,846,495</u>

In addition, upon delivery of the Series 1994A Bonds, the Authority will deposit Eligible Loans, Investment Securities or moneys into the Trust Estate created for the Series 1994A Bonds with a current Balance amount at least equal

to \$4,585,000 as overcollateralization and additional security for the payment of principal of, and interest on, the Bonds.

#### INVESTMENT CONSIDERATIONS

Prospective purchasers and Beneficial Owners of the Series 1994A Bonds should consider the following factors which, among other things, could affect the ability of the assets pledged to the Trust Estates for the Bonds to provide payment of debt service on the Bonds. In addition, other factors could affect the ability of the Authority to administer the Trust Estates for the Bonds and service the Eligible Loans in the Trust Estates, and which could affect the marketability or market price of the Series 1994A Bonds to an extent that can not be predicted. This section of the Official Statement does not include all such factors, but is merely an attempt to summarize some of these considerations.

##### Factors Affecting Cash Flow Sufficiency

The cash flow projections (see the caption "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES 1994A BONDS - Sufficiency of Cash Flows" herein) utilize assumptions, which the Authority believes are reasonable, regarding the current and future composition of and yield on the Authority's student loan portfolio to be held in the Trust Estate for the Series 1994A Bonds, the rate of return on moneys to be invested in various Funds and Accounts under the Series 1994A Supplemental Resolution, and the occurrence of future events and conditions. Such assumptions are derived from the Authority's experience in the administration of its FFEL Program. However, there can be no assurance that Revenues and Recoveries of Principal from the Eligible Loans in the Trust Estate for the Series 1994A Bonds will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, or that Interest Benefits and Special Allowance payments from the USDE will be received in the amounts and at the times anticipated. Furthermore, future events over which the Authority has no control may adversely affect the Authority.

Receipt of Revenues and Recoveries of Principal on the Eligible Loans in the Trust Estate for the Series 1994A Bonds may be accelerated due to various factors, including without limitation: (i) default claims or claims due to the disability, death or bankruptcy of the borrowers; (ii) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Authority's student loan portfolio; (iii) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Authority's student loan portfolio; and (iv) economic conditions that induce borrowers to refinance or repay their loans prior to maturity, including possible consolidation by the USDE's William D. Ford Federal Direct Loan Program competing with the Authority's FFEL Program. Acceleration of receipt of Revenues and Recoveries of Principal on Eligible Loans in the Trust Estate for the Series 1994A Bonds may adversely affect payment of principal of and interest on the Series 1994A Bonds when due, including if such timing results in failure to recover from payments on the Eligible Loans in the Trust Estate for the Series 1994A Bonds an amount equal to that portion of the proceeds of the Series 1994A Bonds used to pay any premium and transfer fee upon the acquisition of Eligible Loans or results in an early redemption of the Series 1994A Bonds. However, in such case, Registered Owners of the Series 1994A Bonds would be entitled to share the benefits of the assets in the Trust Estate for the Series 1992A&B Bonds which are pledged on a parity with the Series 1994A Bonds.

Receipt of Revenues and Recoveries of Principal on the Eligible Loans in the Trust Estate for the Series 1994A Bonds may be delayed due to various factors including without limitation: (i) borrowers entering deferment periods due to a return to school or other eligible conditions; (ii) forbearance being granted to borrowers; (iii) loans becoming delinquent for periods longer than assumed; (iv) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Authority's student loan

portfolio; and (v) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Authority's student loan portfolio. Such delay in the receipt of Revenues and Recoveries of Principal on Eligible Loans in the Trust Estate for the Series 1994A Bonds may adversely affect payment of principal of and interest on the Series 1994A Bonds when due. However, in such case, Registered Owners of the Series 1994A Bonds would be entitled to the benefits of the assets in the Trust Estate for the Series 1992A&B Bonds which are pledged on a parity with the Series 1994A Bonds.

If actual receipt of Revenues and Recoveries of Principal under the Series 1994A Supplemental Resolution or actual expenditures vary materially adversely from those projected, the Trustee would be required to utilize monies in the Trust Estate for the Series 1992A&B Bonds. If all of these pledged sources were insufficient, then the Authority may be unable to pay the principal of and interest on the Series 1994A Bonds when due. In such event, the Series 1994A Supplemental Resolution authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of the Series 1994A Bonds, and sell the Eligible Loans in the Trust Estate and all other assets comprising the Trust Estate. See "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" herein. In such event, it is possible, however, that the Trustee would not be able to sell the Eligible Loans in the Trust Estate and the other assets comprising the Trust Estate for a sufficient amount to pay all of the remaining principal of and accrued interest on all Bonds, including the Series 1994A Bonds.

#### **Noncompliance with the Higher Education Act**

Noncompliance with the Higher Education Act by the Authority, a Guarantor, or by a prior lender or servicer may adversely affect payment of principal of and interest on the Bonds, including the Series 1994A Bonds, when due. The Higher Education Act requires lenders, including the Authority, making and servicing Eligible Loans, a Guarantor guaranteeing student loans and servicing agents servicing student loans to follow certain due diligence procedures in an effort to ensure that Eligible Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a student loan is in default, certain loan collection procedures. Such loan application and loan origination procedures are usually performed by the Authority, but in certain instances may have been performed by a prior lender or servicer. Such loan collection procedures are usually performed by the Authority, but in certain instances may have been performed by a prior lender or servicer. Failure to follow such due diligence procedures may result in the Secretary's refusal to make reinsurance payments to the Guarantor on such loans, or in the Guarantor's refusal to honor its guarantee on such loans to the Authority, or in the Authority being required to repay to the Secretary or a Guarantor various federal benefits received by the Authority with respect to an Eligible Loan which is not entitled to receive such amounts. Loss of reinsurance payments by the Secretary could adversely affect the ability of the Guarantor to honor guarantee claims made by the Authority, and loss of guarantee payments to the Authority by a Guarantor or other federal benefits could adversely affect payment of principal of and interest on the Bonds, including the Series 1994A Bonds. In certain of such occurrences, the Authority may have the right of reimbursement from a prior servicer that failed to properly service such loans, or the right to cause a prior lender to repurchase a loan which is subject to a loss of guarantee payments.

#### **Financial Status of Guarantors**

The Authority's ability to pay, when due, the principal of and interest on the Bonds, including the Series 1994A Bonds, from monies to be received into the Trust Estates depends in part on the Authority's timely receipt from the Guarantors of guarantee payments required to be made pursuant to agreements between the Authority and the respective Guarantors. Although the Guarantors are obligated to make 100% guarantee claim payments as to guaranteed loans disbursed prior to October 1, 1993, and, with certain exceptions, 98% guarantee

claim payments as to guaranteed loans first disbursed on or after October 1, 1993, to the Authority and to other lenders, the Guarantors rely on reinsurance by the Secretary (which reinsurance amount varies between 78% and 100% of the amount of the claim paid, depending on when the loan was made and on the default "trigger" rate applicable to all loans a Guarantor has guaranteed and not just the loans held by the Authority). The ability of the Guarantors to make guarantee claim payments with respect to defaulted Eligible Loans in the Trust Estates for the Bonds in full and in a timely manner is dependent, in part, upon factors which are unrelated to the Authority's Eligible Loan portfolio and may be impaired if guarantee claim payments exceed expectations.

The Higher Education Amendments of 1992 to the Higher Education Act contained certain amendments that were intended to enhance the financial status of Guarantors. However, the Student Loan Reform Act of 1993 contained certain amendments affecting Guarantors, such as reducing the maximum guarantee fee allowed to be charged by Guarantors, reducing the reinsurance rates from the Secretary for Eligible Loans first disbursed on or after October 1, 1993 and reducing the defaulted loan collection retention rate, among other things. The Secretary was also given authority to recover and restrict the use of Guarantor reserve funds under certain circumstances.

As of September 30, 1994, approximately 98.6% of the Authority's FFEL Program loans were guaranteed by the Regents, acting as the State Guarantee Agency. Consequently, the Authority relies significantly on the financial status of the State Guarantee Agency and its obligations to make guarantee claim payments on defaulted Eligible Loans in the Trust Estates for the Bonds. During a portion of each of the past five federal fiscal years ended September 30, the State Guarantee Agency has received reimbursement payments from the Secretary on some of its reinsurance requests at the rate of 90% of the claim amount instead of 100% because of the "trigger" rate calculation for such federal fiscal years. See the caption "GUARANTEE AGENCIES" and "Appendix C - THE STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION" herein.

#### Changes in Federal Law

Since its original enactment, the Higher Education Act has been amended and reauthorized several times, including the Higher Education Amendments of 1986, 1990, 1992 and 1993. There can be no assurance that the Higher Education Act, or other relevant law, will not be changed in a manner that could adversely impact the Authority's FFEL Program.

The Student Loan Reform Act of 1993 enacted a variety of changes in the FFEL Program, and enacted a Federal Direct Student Loan Program (now renamed the William D. Ford Federal Direct Loan Program) with direct lending by the USDE to students at eligible institutions participating in that program. Among other things, changes made to the FFEL Program included imposing on lenders or holders certain user/lender loan origination fees, a reduction of the insurance or guarantee level on defaulted Eligible Loans to 98% of the claim amount for loans first disbursed on or after October 1, 1993 and a pending reduction (for loans first disbursed on or after July 1, 1995) on interest benefits on Eligible Loans while the Secretary is paying interest benefits on such loans, e.g. loans in school, grace or deferment status.

The transition from the FFEL Program to the William D. Ford Federal Direct Loan Program will involve increasing reductions in the volume of loans made under the FFEL Program generally. As these reductions occur, servicing cost increases and revenue reductions for lenders and holders, such as the Authority, and for Guarantors may occur. Additionally, if the volume of loans made under the Authority's FFEL Program is reduced, the Authority may be required to redeem the Bonds, including the Series 1994A Bonds, sooner than expected which could adversely affect the cash flow in the Trust Estates. The Student Loan Reform Act of 1993 may therefore have a material adverse impact on Guarantee Agencies and student loan lenders and holders such as the Authority. See "Appendix B - DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein.

## **Secondary Market Liquidity**

A Registered or Beneficial Owner's ability to sell their interests in Series 1994A Bonds, and the price realized therefrom, will be dependent on the secondary market for such securities.

To facilitate secondary market trading for the Auction Rate Securities, the Authority has contracted with the Market Agent and the Auction Agent, and agreed to pay the fees of each, to conduct Auctions. In addition, the Underwriter has agreed to act as a Broker-Dealer with respect to Auctions. The Authority will use its best efforts to obtain participation by other Broker-Dealers in these Auctions. The Authority has agreed to pay a Broker-Dealer Fee (as defined in the Auction Agent Agreement) to compensate these Broker-Dealers for their handling of Bids and Orders (each as defined herein) on behalf of existing holders or potential holders of the Auction Rate Securities. However, under the Broker-Dealer Agreements, the Broker-Dealers will not be obligated to maintain a secondary market for the Auction Rate Securities, or act as a dealer for their own account in buying and selling such securities.

There can be no assurance that sufficient clearing bids will be received to make each Auction successful to enable a holder to sell their interests in the Auction Rate Securities. Participation by existing holders and potential holders in the Auctions, the supply and demand for the Auction Rate Securities and the results of the Auctions, will be dependent on numerous factors, including without limitation: (i) general economic and securities market conditions; (ii) general levels of interest rates, including interest rates (before and after tax considerations) on comparable securities available on the market; (iii) the credit rating assigned to the Series 1994A Bonds which is a current assessment of the credit worthiness of the issuer with respect to a specific obligation and may be changed, suspended or withdrawn by the agency furnishing same (see the caption "RATING" herein); and (iv) the other investment considerations described in this section of the Official Statement.

## **Enforceability of Remedies**

The remedies available to the Trustee, the Authority or Registered Owners of the Bonds, including the Series 1994A Bonds, upon an Event of Default under the Bond Resolution are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies provided in the Bond Resolution or the Trust Agreement may not be readily available or may be limited. The various legal opinions delivered concurrently with the delivery of the Series 1994A Bonds and the Series 1994A Supplemental Resolution are qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

## **THE AUTHORITY**

### **Organization**

The Authority was created by an express Trust Indenture dated August 2, 1972 in accordance with the provisions of the Act. The Student Loan Act authorized the Governor of the State to accept the beneficial interest in the trust, which was so accepted on August 2, 1972, making the State the beneficiary of the trust. The Authority is governed by five trustees who are appointed by the Governor of the State, subject to the advice and consent of the State Senate, for overlapping five (5) year terms.

The primary purpose of the Authority is to provide education loan funds. In doing so the Authority acts as a direct lender to student borrowers or their parents and, in certain instances, purchases guaranteed education loans from other eligible lenders.

The offices of the Authority are located at 4545 North Lincoln Boulevard, Suite 66, Oklahoma City, Oklahoma 73105. Its administrative telephone number is (405) 556-9210 and its facsimile transmission number is (405) 556-9255.

#### Administration

The present trustees of the Authority and their principal occupations are as follows:

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>	<u>Principal Occupation</u>
Patrick Rooney	Chairman	04/06/95	Chairman, Charter National Bank; Oklahoma City, OK
Joe E. White, Jr.	Vice Chairman	04/06/96	Attorney, Hughes, White, Adams & Grant; Oklahoma City, OK
Dr. Bill H. Hill	Trustee	04/06/97	President, Eastern Oklahoma State College; Wilburton, OK
Christie Woodson	Secretary	04/06/98	Chair, Lawton Christian School; Lawton, OK
Ted VanLandingham	Assistant Secretary	04/06/99	General Manager & Co-Owner, Devery Implement Company; Alva, OK

The day-to-day management of the Authority is vested in a president and executive staff appointed by the trustees of the Authority. The present executive officers of the Authority are listed below:

*Dr. Gene Satterfield, President.* Dr. Satterfield became President and Chief Executive Officer of the Authority on January 22, 1991. From 1973 until assuming his current position, he was the University Business Manager of Oklahoma State University, Stillwater, Oklahoma. Prior to that he was the Assistant Controller for Oklahoma State University. He has also served as the Controller and Secretary-Treasurer for the Oklahoma State University Education and Research Foundation. Dr. Satterfield is a member of the Oklahoma and the Central Associations of College and University Business Officers as well as various civic organizations. Dr. Satterfield received a Bachelor of Science degree in Business in 1961, a Master of Arts degree in 1984 and a Doctor of Education degree in 1988 from Oklahoma State University.

*Patricia VanAntwerp, Esq., Vice President - Lending.* Ms. VanAntwerp has been employed by the Authority in her current position since July 1, 1987. From 1984 to 1987, Ms. VanAntwerp was employed by the Oklahoma State Regents for Higher Education as Director of the Oklahoma Student Loan Program. From 1979 to 1984, Ms. VanAntwerp was Assistant General Counsel for the Oklahoma Corporation Commission. Ms. VanAntwerp received a Bachelor of Science degree in Business from Oklahoma State University in 1960. In 1977, she received a Juris Doctor degree from Oklahoma City University School of Law. She is a member of the Oklahoma Bar Association, the American Bar Association, the Oklahoma County Bar Association, Women Lawyers of Oklahoma, National Association of Women Lawyers and the Oklahoma and National Business and Professional Women's Organizations.

*Roderick W. Durrell, Esq., Vice President - Finance.* Mr. Durrell has been employed by the Authority since July 1, 1990 with primary responsibilities in financial analysis and planning. Prior to joining the Authority, Mr. Durrell was in private practice specializing in public finance law in Oklahoma City and an officer of municipal securities broker-dealer firms in Oklahoma City. Mr. Durrell is a member of the Oklahoma Bar Association and the National Association of Bond Lawyers. Mr. Durrell received his Bachelor of Science degree from the University of Vermont in 1967, his Master of Business Administration degree from

the University of Hartford in 1972 and his Juris Doctor degree from the University of Oklahoma in 1975.

*Graden Perry, Vice President - Loan Management.* Mr. Perry joined the Authority staff on July 8, 1991 and assumed the position of Vice President on January 1, 1992. Mr. Perry was employed by Continental Federal Savings & Loan Association, Oklahoma City, Oklahoma, from 1976 to June 1991. He was Retail Banking Division Manager, Senior Vice President from 1984 to 1991; Chief Loan Officer, Senior Vice President from 1983 to 1984; Personal Lending Division Manager, Senior Vice President 1980 to 1983; and Branch Manager, Vice President from 1976 to 1980. While at Continental Federal, Mr. Perry's responsibilities included developing and managing its guaranteed student loan activities. From 1959 to 1976 Mr. Perry was employed by Transamerica Financial Corporation in Oklahoma City. Mr. Perry attended the University of Tulsa and the University of Central Oklahoma.

*William A. Rogers, C.P.A., Vice President-Operations and Controller.* Mr. Rogers has been employed by the Authority as Controller since October 1, 1991. His primary duties as Controller are the production of accrual basis financial statements, related management reports and the management of systems related thereto. From 1987 to 1991, Mr. Rogers was the Controller for W. R. Hess Company of Chickasha, Oklahoma, a gasoline jobber and retailer of computer hardware and software. From 1981 to 1987, Mr. Rogers worked in public accounting in Oklahoma City where his duties included auditing, management advisory services and tax compliance work for a variety of governmental, non-profit and commercial entities. From 1978 to 1981, Mr. Rogers worked for the State of Arkansas, Division of Legislative Audits, performing financial and compliance audits of municipal and county governments in Arkansas. Mr. Rogers received a Bachelor of Science degree in 1978 from Arkansas State University and received his CPA certificate in July, 1983. He is a member of the Oklahoma Society of Certified Public Accountants and the American Institute of Certified Public Accountants.

The Authority has approximately 35 full time equivalent employees.

#### **Purposes and Powers**

The basic purpose of the Authority is to provide funds for insured loans to qualified persons attending participating post-secondary educational institutions and to carry out the objectives of the Student Loan Act. In order to carry out the purposes of the Student Loan Act, the Authority is authorized to incur indebtedness by the issuance of revenue bonds, notes or other evidences of indebtedness and to secure such obligations by lien, pledge or otherwise. Neither the Bonds nor any obligations issued by the Authority constitute an obligation or indebtedness of the State, or any other political subdivision thereof, or personal obligations of the trustees of the Authority. Obligations issued by the Authority are obligations of the Authority payable from the revenues pledged thereto.

The Trust Indenture which created the Authority, and the Act, empower the trustees of the Authority, among other things, to borrow money, and to execute therefor notes, bonds or other evidences of indebtedness, and to secure the same by lien, pledge or otherwise. In addition, the trustees of the Authority are authorized to make and perform contracts of every kind, to do all acts in their judgement necessary or desirable for the proper and advantageous management, investment and distribution of the trust estate and income therefrom; to select depositories for the funds and securities of the Authority; and to bring any suit or action, which in their judgement is necessary or proper to protect the interests of the trust estate, or to enforce any claim, demand or contract for the Authority. Under the Public Trust Act and the Trust Indenture creating the Authority, the trust can not be terminated by voluntary action if there is any indebtedness or fixed term obligations outstanding, unless all owners of such indebtedness or obligations consent in writing to the termination. The Authority shall, at such time as its purposes have been fully executed and all bonds issued by the Authority are discharged, distribute the residue and



remainder of any funds or accounts of the trust estate to the State as the beneficiary under the Trust Indenture.

**Lending Programs**

The Authority is an originating student loan lender and, pursuant to a certain Lender of Last Resort Agreement dated as of February 18, 1994 between the Authority and the Regents, is also a lender of last resort. The lending programs offered by the Authority make loans for students enrolled in the following types of post-secondary educational institutions: (i) four year universities and colleges; (ii) two year junior, community and technical colleges; (iii) proprietary vocational and trade schools; and (iv) public vocational-technical schools. Oklahoma residents attending educational institutions out of state are also eligible to borrow from the Authority.

The following table illustrates the dollar amount and type of loan principal disbursed by the Authority for the past five fiscal years ended June 30:

<u>Fiscal Year</u>	<u>Stafford Loans</u>	<u>Unsubsidized Stafford</u>	<u>PLUS Loans</u>	<u>SLS Loans</u>	<u>HEAL Loans</u>	<u>Total</u>
1994	\$16,882,455	\$1,836,639	\$2,431,349	\$3,881,683	\$ 0	\$25,032,126
1993	\$13,763,054	\$ 236,958	\$3,707,397	\$4,447,144	\$2,015,072	\$24,169,625
1992	\$15,627,661	N/A	\$3,907,382	\$5,638,148	\$2,917,599	\$28,090,790
1991	\$20,838,491	N/A	\$4,326,004	\$6,933,522	\$3,177,974	\$35,275,991
1990	\$14,713,689	N/A	\$4,753,406	\$6,944,067	\$2,071,312	\$28,482,474

The lending programs presently offered by the Authority are described below:

A. *Federal Stafford Loan ("Stafford") Program.* This is the basic student loan made under Parts B and F of Title IV of the Higher Education Act for eligible students pursuant to a "needs test". The amount borrowed may not exceed the student's cost of education minus other aid received. Under this program, an undergraduate student can borrow from \$2,625 to \$5,500 per year depending on the year of schooling, subject to reduction in the case of academic programs that are less than one year long. The Stafford borrower is subject to total borrowings of \$23,000. In addition, a graduate student can borrow a maximum amount of \$8,500 per year subject to total borrowings of \$65,500.

B. *Unsubsidized Stafford Loans ("Unsubsidized Stafford") For Middle Income Borrowers Program.* The Authority began offering Unsubsidized Stafford Loans under Section 428H of the Higher Education Act beginning January 1, 1993. This variation of the Stafford loan does not require the student to satisfy the "needs test" imposed on students seeking subsidized Stafford loans because the federal government does not pay the interest on the loan while the student borrower is in school or in the grace period. However, borrowers can defer payment on an Unsubsidized Stafford loan from the Authority until the student borrower graduates (or ceases his or her studies), and for the grace period afterwards by capitalization of the interest to the principal balance to be repaid.

Effective July 1, 1994, the Federal Supplemental Loans for Students ("SLS") Program was repealed by the Higher Education Act and merged into the Unsubsidized Stafford Program. Presently, an eligible Unsubsidized Stafford borrower that is a dependent undergraduate student can borrow from \$2,625 to \$5,500 per year depending on the year of schooling, less available amounts of subsidized Stafford loans. An eligible Unsubsidized Stafford borrower that is an independent undergraduate student can borrow from \$6,625 to \$10,500 per year depending on the year of schooling, less available amounts of subsidized Stafford loans. Both dependent and independent borrower amounts are subject to reduction in the case of academic programs that are less than one year long, and subject to a total loan limit of \$46,000. Dependent graduate students can borrow a maximum amount of \$8,500 per year, and independent graduate students can borrow a maximum of \$18,500 per year. Both dependent and independent Unsubsidized Stafford graduate/professional studies borrowers are subject to a total loan limit of \$138,500.

C. *Federal Parent Loans to Undergraduate Students ("PLUS") Program.* PLUS loans are made to parents who do not have adverse credit to help meet the post-secondary education expenses (less other aid) of their dependent undergraduate students. A borrower seeking to secure a PLUS loan need not satisfy the "needs test" imposed on students seeking subsidized Stafford loans. An eligible PLUS borrower can borrow a maximum of the remaining unmet annual educational need without a dollar limit on behalf of each dependent student.

See "Appendix B - DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein for a more complete description of the FFEL Program.

As of September 30, 1994, approximately 98.6% of the Authority's FFEL Program loans were guaranteed by the State Guarantee Agency.

At September 30, 1994, the Authority had a approximately \$103,311,350 of education loan principal (net of a \$975,000 allowance for loan losses) receivable from borrowers. The composition of this receivable amount was as follows:

<u>Loan Type</u>	<u>Principal Amount</u>	<u>Per Cent of Total</u>
Federal Stafford		
Subsidized	\$81,871,787	79.2%
Unsubsidized	<u>3,439,924</u>	<u>3.4</u>
Total Stafford	\$ 85,311,711	82.6%
Federal SLS	7,340,095	7.1
Federal PLUS	7,357,225	7.1
REAL	<u>3,302,319*</u>	<u>3.2</u>
Loan Principal Receivable	<u>\$103,311,350</u>	<u>100.0%</u>

\*Plus deferred accrued interest to be capitalized on repayment.

These loans were sold to another student loan holder in November 1994.

In February 1994, the Authority began offering loans to certain students, primarily those attending certain high default rate schools, under certain conditions pursuant to the State Guarantee Agency's Lender of Last Resort Loan Program. Through September 30, 1994, the Authority had disbursed approximately \$463,000 principal amount of such loans.

Beginning July 1, 1994, USDE began implementing its William D. Ford Federal Direct Loan Program ("FDSLSP") which was authorized by the enactment of the Student Loan Reform Act of 1993. FDSLSP competes with the FFEL Program by lending directly at eligible schools electing to participate in that program, thus eliminating FFEL Program lenders, such as the Authority, from originating some or all education loans at the participating schools. The Authority is unable to predict the future impact of FDSLSP on its originations of FFEL Program loans or on the effect of FDSLSP on the originations of FFEL Program loans by other lenders that might sell such loans to the Authority.

A. *First Year Participation in FDSLSP.* In the first year of implementation, FDSLSP is intended nationally to achieve a 5% share of the annual student loan volume. In Oklahoma, Oklahoma State University, Stillwater, Oklahoma is participating 100% in FDSLSP. In the Fiscal Year ended June 30, 1994, approximately 7.4% of the Authority's lending volume was made to students (or their parents) attending Oklahoma State University. In addition to originating new loans, during the first year (and subsequently) USDE intends to offer borrowers the opportunity to prepay FFEL Program loans, such as are held by the Authority, and consolidate them as FDSLSP Direct Consolidation Loans rather than as Consolidation Loans in the FFEL Program.

B. *Comparative Authority Lending Volume.* Despite the presence of FDSLSP, the Authority's lending volume for the four months ended October 31, 1994 was approximately \$9,481,000 compared with disbursements of approximately

\$8,713,000, for the comparable period last year. This is an increase of 8.1% in lending volume.

C. *Second Year Participation in FDSLSP.* In the second year of FDSLSP ending June 30, 1996, that program is intended to achieve nationally a 40% share of the annual student loan volume. Schools that applied to participate in the second year have been announced by USDE. The parent holding company of an Oklahoma school where the Authority originates loans has been listed as a participant in FDSLSP in the second year. That Oklahoma school accounted for approximately 15.5% of the Authority's lending volume in the Fiscal Year ended June 30, 1994. The Authority is unable to predict the extent of participation by the Oklahoma school in FDSLSP. The aggregate lending volume of the other schools in Oklahoma that applied for participation in FDSLSP in the second year is not material to the Authority's lending volume.

D. *Future Implementation of FDSLSP.* In future years, FDSLSP nationally has a target share of the annual student loan volume of 50% in the years ending June 30, 1997 and 1998, and 60% in the year ending June 30, 1999. The Authority is not able to predict the extent of participation in FDSLSP by schools where the Authority presently lends.

The Authority plans to begin making FFEL Program Federal Consolidation Loans in the immediate future. The Authority may develop and offer other student lending programs from time to time in the future.

#### **Loan Acquisitions**

Beginning in June 1993, the Authority started acquiring certain guaranteed education loans from other eligible lenders in Oklahoma. Under the provisions of the purchase agreements for such loan acquisitions in the secondary market, the selling eligible lender agrees to repurchase any loans that have a claim rejected by the guarantor thereof or are not collectible for certain other reasons because of circumstances or events that occurred prior to the acquisition of the loan by the Authority. Through October 1, 1994, the Authority had acquired approximately \$12,950,000 principal amount of such loans from other eligible lenders.

#### **Loan Servicing**

The Authority originates and services its own loans on a Remote Servicing System database provided by UNIPAC pursuant to the provisions of a certain Electronic Data Processing Service Agreement dated as of November 1, 1993 for a term ending October 31, 1996. Based on information provided by UNIPAC and not independently verified by the Authority, Bond Counsel or the Underwriter, UNIPAC began its education loan servicing operations on January 1, 1978. UNIPAC provides education loan servicing, time sharing, administration and other services to lenders, secondary market purchasers and guarantee agencies throughout the United States. In order to provide these services, UNIPAC has developed and maintains a computer mainframe and software system.

UNIPAC is owned 80.5% by Union Bank and Trust Company of Nebraska. As of September 30, 1994, UNIPAC had approximately 640 employees in Aurora, Colorado, and approximately 205 employees in its office in Lincoln, Nebraska. As of September 30, 1994, UNIPAC's full servicing volume was approximately \$3.7 billion for its full service clients. At that date, UNIPAC also had \$1.6 billion of servicing volume on its remote lender servicing system, including the FFEL Program loans held and serviced by the Authority on the Oklahoma Remote Servicing System database at UNIPAC.

Conversion of the Authority's FFEL Program loans to the Remote Servicing System database began in December 1993, and effective July 1, 1994, this expansion of operations included internal loan servicing by the Authority of substantially all of its education loans using the facilities of the Remote Servicing System.

Additionally, in July 1994, the Authority started originating and servicing education loans for another Oklahoma lender participating in the FFEL Program.

Education loan servicing by the Authority is also conducted under the registered tradename "Oklahoma Student Loan Servicing"<sup>R</sup>.

### Outstanding Indebtedness

The Authority has issued various obligations for funding its lending Programs. At September 30, 1994, the Authority had a total outstanding long term indebtedness of approximately \$101,122,000, as itemized in the following Table.

#### Notes

Variable Rate Revenue Note, 1987 Series A (Stafford).....	\$ 5,975,000
Taxable Variable Rate Revenue Note, 1990 Series A (Stafford).....	22,463,564
Variable Rate Revenue Note, Series 1991C (HEAL).....	4,181,173*
Taxable Variable Rate Revenue Note, Series 1993L (FFELP).....	<u>28,832,000</u>

\*Includes \$432,671 of deferred accrued interest payable. This Note was redeemed in November 1994.

Total Notes Outstanding \$ 61,451,737

#### Bonds

Student Loan Revenue Refunding Bonds, Series 1992A (FFELP).....	\$30,680,000
Student Loan Revenue Refunding Bonds, Series 1992B (FFELP).....	<u>8,990,000</u>

Total Bonds Outstanding \$ 39,670,000

Total Indebtedness \$ 101,121,737

The outstanding notes listed above have been issued under separate resolutions, and are secured by trust estates and revenue sources separate and apart from the assets and revenues pledged for the Bonds, including the Series 1994A Bonds.

The Authority may issue additional indebtedness from time to time in the future pursuant to the General Resolution. Such debt obligations would be issued as Additional Bonds pursuant to a supplemental resolution on a parity with the Bonds, including the Series 1994A Bonds, unless a subordinate lien issue is subsequently authorized by law and undertaken by the Authority.

### Plan for Doing Business

The Authority prepared a Plan for Doing Business (the "Plan") which was submitted to the Governor of the State and the State Guarantee Agency. The Plan was approved by the Governor of the State on August 24, 1987 and was transmitted to the Secretary.

### Financial Statements

The financial statements of the Authority are prepared on the basis of generally accepted accounting principles. The financial statements for the Fiscal Years ended June 30, 1994 and 1993 were audited and reported on by KPMG Peat Marwick LLP, Oklahoma City, Oklahoma, independent certified public accountants. Such financial statements (including the Notes thereto), and the accountants' report thereon, are included herein as Appendix D.

The Bonds, including the Series 1994A Bonds, and the interest thereon, are limited and special revenue obligations of the Authority payable solely from the

assets of the Trust Estates. The financial information presented in Appendix D is intended only as background financial information on the Authority and its overall operations.

Financial statements of the Authority for Fiscal Years ending after June 30, 1994, will be made available to Beneficial Owners of the Series 1994A Bonds upon written request directed to the Authority's Vice President - Finance. The Authority has not undertaken the obligation to furnish additional or more frequent information on its finances or operations, or on the Eligible Loans included in the Trust Estates for the Bonds (including the Series 1994A Bonds), to the Registered or Beneficial Owners of the Series 1994A Bonds.

#### GUARANTEE AGENCIES

The material in this Section of the Official Statement is a very brief overview and does not purport to be complete information on the Guarantors of Eligible Loans, including the State Guarantee Agency which is the primary Guarantor of education loans held by the Authority. Appendix C herein provides descriptive, statistical and financial statement information on the State Guarantee Agency. Reference is made to "Appendix C - STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION" herein for such information.

#### Guarantee and Reinsurance of Loans

The Eligible Loans in the Trust Estates for the Bonds, including the Series 1994A Bonds, will be guaranteed: (i) by the Regents' Oklahoma Guaranteed Student Loan Program ("OGSLP"), as the State Guarantee Agency; or (ii) by other Guarantors qualified under the Bond Resolution to act in such capacity; or (iii) in certain circumstances by the Secretary. As of September 30, 1994, approximately 98.6% of the FFEL Program loans held by the Authority were guaranteed by the State Guarantee Agency pursuant to a certain Agreement to Endorse Loans dated as of October 3, 1994 between the Authority and the Regents. Approximately 1.4% of such loans were guaranteed by another Guarantor.

Pursuant to a contract of guarantee between a guarantor and an eligible lender, such as the Authority, the lender is entitled to a claim payment from the Guarantor for 98% to 100% of any proven loss resulting from default, death, permanent and total disability, or discharge in bankruptcy of the borrower. In servicing a portfolio of education loans, an eligible lender, including the Authority, is required under the Higher Education Act and the rules and regulations of the Guarantors to use due diligence in the servicing and collection of loans and to use collection practices no less extensive and forceful than those generally in use among financial institutions in order to maintain the guarantee on the loan. The eligible lender, including the Authority, is required to continue collection efforts on a defaulted loan until the loan is 180 days past due and submit a claim for payment thereon to the Guarantor within 90 days thereafter.

Pursuant to the Higher Education Act, each respective Guarantor has entered into a guarantee agreement (the "Federal Guarantee Agreement") and a supplemental guarantee agreement (the "Supplemental Guarantee Agreement"), pertaining to the Secretary's reimbursement to each respective Guarantor for amounts expended by such Guarantor in discharge of its guarantee obligation with respect to losses resulting from the default by the borrower in the payment of principal or interest on loans guaranteed by such Guarantor. The Supplemental Guarantee Agreement is subject to annual renegotiation and to termination for cause by the Secretary.

#### Oklahoma Guaranteed Student Loan Program

Substantially all of the guaranteed FFEL Program conducted by the Authority is operated under the guidelines of OGSLP. Numerous other lenders also make education loans guaranteed by the State Guarantee Agency utilizing the Guarantee Fund. OGSLP is operated by the Regents, an agency of the State, acting as the

State Guarantee Agency and administering and utilizing the Guarantee Fund established in the State Treasury by Title 70 Oklahoma Statutes 1991, sections 622 and 623, as amended, to guarantee education loans made by various eligible lenders, including the Authority, to applicants who attend approved universities, colleges, vocational education or trade schools.

OGSLP has been in operation in the State since November 1965. Except for the Authority, eligible lenders have primarily consisted of banks, savings and loan associations and credit unions. As of September 30, 1994, loans had been made by various eligible lenders and guaranteed by the State Guarantee Agency in the total principal amount of approximately \$1.5 billion, of which approximately \$986 million aggregate principal amount was outstanding. The Guarantee Fund balance (cash basis) at that date was \$11,223,116 or, 1.14% of the guaranteed principal amount outstanding. This ratio exceeds the requirements of the Higher Education Act. The reserve ratio required by the Higher Education Act for the State Guarantee Agency for the current Fiscal Year ending June 30, 1995 will be 0.7%, which requirement will increase to 0.9% for the Fiscal Year ending June 30, 1996 and increasing to 1.10% for the Fiscal Year ending June 30, 1997.

For a description of the State Guarantee Agency, including statistical and financial statement information, see "Appendix C - STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION" herein.

#### **ABSENCE OF LITIGATION**

There is no litigation of any nature now pending or threatened, or in any way contesting or affecting the validity of the Series 1994A Bonds or any proceedings of the Authority taken with respect to the issuance or sale thereof, or the pledge or application of any moneys or security provided for the payment of the Series 1994A Bonds or the existence or powers of the Authority.

#### **LEGALITY OF INVESTMENT**

The Student Loan Act provides in pertinent part in Section 695.3 as follows:

All bonds issued under the Oklahoma Student Loan Act are legal and authorized investments for banks, savings banks, trust companies, savings and loan associations, insurance companies, fiduciaries, trustees and guardians, and for the State of Oklahoma and any of its political subdivisions, departments, institutions and agencies. When accompanied by all unmatured coupons appurtenant thereto, the bonds are sufficient security for all deposits of state funds and of all funds of any board in control at the par value of the bonds.

#### **LEGAL MATTERS**

The issuance of the Series 1994A Bonds is subject to approval of validity by Kutak Rock, Oklahoma City, Oklahoma, Bond Counsel, whose approving opinion is expected to be delivered substantially in the form attached hereto as Appendix H. Certain legal matters will be passed on for the Authority by its special counsel, Roderick W. Durrell, Esq.; for the Underwriter by its Counsel, Williams & Anderson, Little Rock, Arkansas; and for the Trustee by its general counsel, Sam Ott, Esq. Certain legal matters also will be passed on by the Attorney General of the State of Oklahoma in approving the transcript of legal proceedings. See also, the caption "TAX EXEMPTION" herein.

#### **TAX EXEMPTION**

In the opinion of Kutak Rock, Oklahoma City, Oklahoma, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 1994A Bonds is excludable from gross income of the recipients thereof for federal income tax purposes; however, interest on the Series 1994A Bonds constitutes a

specific item of tax preference for purposes of the federal alternative minimum tax for individuals and corporations.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state and local obligations to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of certain bond proceeds be paid periodically to the United States, except under certain circumstances, and a requirement that information reports be filed with the Internal Revenue Service. The Authority has covenanted to comply with the requirements of the Code in order to maintain the exclusion from gross income of interest on the Series 1994A Bonds for federal income tax purposes.

The opinion of Bond Counsel will assume continuing compliance with the covenants of the Authority pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Series 1994A Bonds for federal income tax purposes and, in addition, will rely on representations by the Authority with respect to matters solely within the knowledge of the Authority which Bond Counsel has not independently verified. If the Authority should fail to comply with its covenants or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Series 1994A Bonds could become taxable from the date of issuance of the Series 1994A Bonds, regardless of the date on which the event causing such taxation occurs. Bond Counsel has not undertaken to determine (or to inform any person) whether any action taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Series 1994A Bonds may affect the tax status of interest on the Series 1994A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 1994A Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Series 1994A Bonds may otherwise affect the federal income tax liability of the recipient. The extent of these other tax consequences will depend upon the recipient's particular tax status or other items of income or deduction. Bond Counsel expresses no opinion regarding any such consequences. Purchasers of the Series 1994A Bonds, particularly purchasers that are corporations (including S corporations, corporations subject to the environmental tax imposed by Section 59A of the Code and foreign corporations operating branches in the United States), property or casualty insurance companies, banks, thrifts or other financial institutions or certain recipients of Social Security and Railroad Retirement benefits are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 1994A Bonds.

The opinions expressed by Bond Counsel are based upon existing legislation as of the date of issuance and delivery of the Series 1994A Bonds and Bond Counsel expresses no opinion as of any date subsequent thereto or with respect to any pending legislation.

Bond Counsel is further of the opinion that, pursuant to the Act, the Series 1994A Bonds and the income therefrom are exempt from taxation in the State.

#### RATING

Moody's Investors Service, Inc., 99 Church Street, New York, New York, has assigned its municipal bond rating of "Aaa" to the Series 1994A Bonds. The rating was applied for by the Authority, which has furnished certain information and materials concerning the Bonds, including the Series 1994A Bonds, and the Authority, some of which is not included in this Official Statement. Generally, a rating agency bases its rating on such information and materials and also on such investigations, studies and assumptions as it may undertake or establish independently. The rating is not a recommendation to buy, sell or hold the Series 1994A Bonds and an explanation of the significance of the rating may be obtained from Moody's.

As a consequence of obtaining a municipal bond rating assignment of "Aaa" on the Series 1994A Bonds which are on a parity with the outstanding Series 1992A&B Bonds, the Authority expects that the Series 1992A&B Bonds which are rated single "A" by Moody's will be upgraded, upon delivery of the Series 1994A Bonds, and assigned a municipal bond rating of "Aaa" also. However, no assurance can be given that the conditions for such an upgrade will be fulfilled or that such an upgrade for the outstanding Series 1992A&B Bonds actually will be achieved.

The ratings are subject to change or withdrawal at any time and any such change or withdrawal may affect the market price or marketability of the Bonds, including the Series 1994A Bonds. Neither the Authority nor the Underwriter has undertaken any responsibility either to bring to the attention of the Registered Owners of the Series 1994A Bonds any proposed change in or withdrawal of the rating on the Series 1994A Bonds or to oppose any such change or withdrawal.

#### UNDERWRITING

The Series 1994A Bonds are to be purchased by the Underwriter pursuant to the terms and conditions of a Bond Purchase Agreement (the "Bond Purchase Agreement") to be entered into by and between the Authority and the Underwriter at a Purchase Price of \$32,200,000 which is equal to the aggregate principal amount of the Series 1994A Bonds. The Bond Purchase Agreement provides that the Underwriter will purchase all of the Series 1994A Bonds if any are purchased. The Authority will pay the Underwriter an underwriting fee and expenses in the total amount of \$156,040 (which is equal to 0.48% of the aggregate principal amount of the Series 1994A Bonds) from certain of its general funds.

The initial public offering price (set forth on the cover page hereof) may be changed from time to time by the Underwriter without notice. The Underwriter may offer and sell the Series 1994A Bonds to certain dealers (including dealers depositing Series 1994A Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page hereof.

#### MISCELLANEOUS

The information in this Official Statement is presented for the guidance of prospective purchasers of the Series 1994A Bonds described herein. The information has been compiled from official and other sources which, while not guaranteed by the Authority or the Underwriter, are believed to be reliable. So far as any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated, they are set forth as such and not as representations of fact, and no representation is made that any of the estimates will be realized. Prospective purchasers of the Series 1994A Bonds are also cautioned that the accuracy of any statistical or economic projection or analysis contained herein is not guaranteed and therefore investors are urged to consult their own advisors concerning such projections or analysis. This Official Statement is not to be construed as a contract or agreement between the Authority or the Underwriter and the purchasers or Registered or Beneficial Owners of any of the Series 1994A Bonds.

All quotations from, and summaries and explanations of, the Act, the Higher Education Act, the Bond Resolution, the Trust Agreement, and other documents contained herein do not purport to be complete, and reference is made to such laws, regulations and documents for full and complete statements of their provisions. All of the Appendices attached hereto are a part of this Official Statement.

The Authority has agreed to make financial statements of the Authority for Fiscal Years ending after June 30, 1994 available to Beneficial Owners of the Series 1994A Bonds upon written request. However, the Authority has not undertaken to furnish additional or more frequent information on its finances or operations, or on the Financed Eligible Loans included in the Trust Estate, to the Registered or Beneficial Owners of the Series 1994A Bonds.



This Official Statement has been approved by the Authority for distribution by the Underwriters to the prospective purchasers and the Registered and Beneficial owners of the Series 1994A Bonds.



OKLAHOMA STUDENT LOAN AUTHORITY

/s/ Patrick Rooney  
Chairman

ATTEST:

/s/ Christie Woodson  
Secretary

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Oklahoma Student Loan Authority  
Student Loan Revenue Bonds, Series 1994A

SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION

Set forth below are abridged or summarized excerpts of certain sections of the General Resolution as amended and supplemented by the Series 1992A&B Supplemental Resolution and the Series 1994A Supplemental Resolution. These excerpts do not purport to be complete or to cover all sections of the General Resolution as amended and supplemented. Furthermore, section headings are not intended to be definitive. Refer to the General Resolution, the Series 1992A&B Supplemental Resolution and the Series 1994A Supplemental Resolution, copies of which are on file with the Trustee, for a complete statement of the rights, duties and obligations of the Authority, the Trustee and the Registered Owners of the Bonds thereunder.

DEFINITIONS

"AA' Composite Commercial Paper Rate" means, as of any date of determination, (i) the interest equivalent of the 30-day rate on commercial paper placed on behalf of issuers whose corporate bonds are rated "AA" by S&P, or the equivalent of such rating by S&P, as such 30-day rate is made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (ii) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of the interest equivalent of the 30-day rate on commercial paper placed on behalf of such issuers, as quoted to the Auction Agent on a discount basis or otherwise, by the Commercial Paper Dealers, as of the close of business on the Business Day immediately preceding such date of determination. If at the time quotations are required any Commercial Paper Dealer does not quote a commercial paper rate required to determine the "AA" Composite Commercial Paper Rate, or if less than three Commercial Paper Dealers are then serving as such for any reason, the "AA" Composite Commercial Paper Rate will be determined on the basis of such quotation or quotations furnished by the Commercial Paper Dealer or Commercial Paper Dealers then serving as such and providing a quotation. For purposes of this definition, the "interest equivalent" of a rate stated on a discount basis (a "discount rate") for commercial paper of a given day's maturity will be equal to the product of (a) 100 times (b) the quotient (rounded upward to the next higher one thousandth (.001) of 1%) of (x) the discount rate (expressed in decimals) divided by (y) the difference between (A) 1.00 and (B) a fraction, the numerator of which will be the product of the discount rate (expressed in decimals) times the number of days from (and including) the date of determination to (but excluding) the date on which such commercial paper matures and the denominator of which will be 360.

"Account" means any of the related trust accounts of the Student Loan Fund and the Student Loan Sinking Fund created and established by, or pursuant to, the Resolutions, and except when the context requires otherwise, a Rebate Fund.

"Act" means Title 70, Oklahoma Statutes 1991, Section 695.1 et seq., as amended, along with the Oklahoma Trusts for Furtherance of Public Functions Act, being Title 60, Oklahoma Statutes, 1981, Sections 176 to 180.3, inclusive, as amended.

"Act of Bankruptcy" means the filing of a petition in bankruptcy by or against the Authority under the United States Bankruptcy Code, as amended, or commencement of similar proceedings by or against the Authority under applicable State bankruptcy or insolvency laws.

"Additional Bonds" means Additional Bonds issued under the terms of the Resolutions.

"After-Tax Equivalent," on any date of determination, means the interest rate per annum equal to the product of (i) the "AA" Composite Commercial Paper Rate on such date and (ii) 1.00 minus the Statutory Corporate Tax Rate on such date.

"All-Hold Rate," on any date of determination, means the interest rate per annum equal to 100% (as such percentage may be adjusted as described under the caption "AUCTION PROCEDURES-Adjustment in Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates" in Appendix F to this Official Statement) of the PSA Index; provided, that in no event shall the All-Hold Rate be more than the maximum Rate.

"Agent Member" means a member of, or participant in, the Securities Depository.

"Applicable Percentage," on any date of determination, means the percentage determined (as such percentage may be adjusted as described under the caption "AUCTION PROCEDURES-Adjustment in Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates" in Appendix F to this Official Statement) based on Moody's rating of the Auction Rate Securities in effect at the close of business on the Business Day immediately preceding such date, as set forth below:

<u>Moody's Credit Rating</u>	<u>Applicable Percentage</u>
"Aaa"	175%
"Aa"	175
"A"	175
"Baa"	200
Below "Baa"	265

provided, that if the Auction Rate Securities are not then rated by Moody's, the Applicable Percentage will be 265%. For purposes of this definition, Moody's rating categories of "Aaa," "Aa," "A" and "Baa" refer to and include the respective rating categories correlative thereto if Moody's has changed or modified its generic rating categories or if Moody's does not rate or no longer rates the Auction Rate Securities or has been replaced. All ratings referred to above will be without regard to the gradations within each rating category.

"Assumed Rate" means an annual rate of interest of sixteen percent (16%), or any higher rate that may be established from time to time pursuant to any Supplemental Resolution; provided that, at the time any such increase in the Assumed Rate is to become effective, the Available Amount of any Letter of Credit will be at least equal to the aggregate principal amount of all Series 1994A Bonds bearing interest at a Variable Rate then Outstanding plus the Interest Coverage Requirement with respect thereto assuming an annual rate of interest equal to the Assumed Rate as increased by said Supplemental Resolution.

"Auction" means the implementation of the Auction Procedures on a Rate Determination Date.

"Auction Agent" means the Initial Auction Agent unless and until a Substitute Auction Agent Agreement becomes effective, after which the Auction Agent will mean the Substitute Auction Agent.

"Auction Agent Agreement" means the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement is entered into, after which Auction Agent Agreement will mean such Substitute Auction Agent Agreement.

"Auction Agent Fee" means the fee established in the Auction Agent Agreement.

"*Auction Period*" means, with respect to the Series 1994A-1 Bonds bearing interest at an Auction Rate, an Interest Period generally beginning on a Thursday and ending on the fifth Wednesday thereafter, as the same may be changed for the Series 1994A-1 Bonds as described under the caption "CHANGES IN AUCTION TERMS" in Appendix F to this Official Statement, and, with respect to the Series 1994A-2 Bonds bearing interest at an Auction Rate, an Interest Period generally beginning on June 1 of each year and ending on May 31 of the following year, as the same may be changed for the Series 1994A-2 Bonds as described under the caption "CHANGES IN AUCTION TERMS" in Appendix F to this Official Statement.

"*Auction Procedures*" means the procedures described under the caption "AUCTION PROCEDURES" in Appendix F to this Official Statement.

"*Auction Rate*" means, with respect to the interest rate on each subseries of the Auction Rate Securities, the interest rate for such subseries of the Auction Rate Securities that results from implementation of the Auction Procedures.

"*Auction Rate Securities*" means any Series 1994A Bonds bearing interest at an Auction Rate.

"*Authenticating Agent*" means the Trustee or any other entity acting as authenticating agent for the Trustee under the Series 1994A Supplemental Resolution and as depository under an Authenticating Agent Agreement, or any successor or successors thereto appointed pursuant to the Series 1994A Supplemental Resolution or pursuant to an Authenticating Agent Agreement, as the case may be, with respect to such functions collectively or separately.

"*Authenticating Agent Agreement*" means any authenticating agent agreement among the Authority, the Trustee and the Authenticating Agent, as depository, as amended and supplemented.

"*Authority*" means the Oklahoma Student Loan Authority, an express trust and agency of the State established pursuant to the Act and the Trust Indenture.

"*Authorized Denominations*" means (i) with respect to the Series 1994A Bonds bearing interest at an Auction Rate or a Variable Rate with an Interest Period with a duration of less than one year, \$100,000 or any integral multiple thereof, and (ii) with respect to the Series 1994A Bonds bearing interest at a Fixed Rate or a Variable Rate with an Interest Period with a duration of one year or more, \$5,000 or any integral multiple thereof.

"*Authority Swap Payment*" means a payment due to a Swap Counterparty from the Authority pursuant to the applicable Swap Agreement (provided, however, that Authority Swap Payment does not include any payments in respect of an Early Termination Date, as defined in the applicable Swap Agreement).

"*Available Amount*" means the initial amount of any Letter of Credit (or the aggregate amount of more than one Letter of Credit) set forth therein, as such amount may be reduced or reinstated pursuant to the terms of such Letter of Credit, and available to be drawn under such Letter of Credit.

"*Authorized Officer*", when used with respect to the Authority, means the Chairman, the Vice-Chairman, the President, the Secretary or an Assistant Secretary of the Authority or any other person designated in writing by the Trustees of the Authority.

"*Bank*" means any bank or banks or other financial institution or institutions which issues and delivers a Letter of Credit pursuant to a Reimbursement Agreement, or any other bank or banks or other financial institution or institutions which may be substituted for such bank pursuant to a Reimbursement Agreement or which may issue and deliver to the Trustee a substitute Letter of Credit. Any Bank issuing a Letter of Credit securing a subseries of the Series 1994A Bonds with an Interest Period of less than one year

must have the highest short-term rating from any Rating Agency then rating such subseries of the Series 1994A Bonds and such rating must apply to the subseries of the Series 1994A Bonds secured by such Bank's Letter of Credit. Any Bank issuing a Letter of Credit securing a subseries of the Series 1994A Bonds with an Interest Period of one year or more must be rated "Aa" by Moody's and such rating must apply to the subseries of the Series 1994A Bonds secured by such Bank's Letter of Credit.

"Balance," when used with reference to any Account or Fund, means the aggregate sum of all assets standing to the credit of such Account or Fund, including, without limitation: Investment Securities computed at the value of Investment Securities; Student Loans computed at the unpaid principal amount thereof plus accrued interest; and lawful money of the United States; provided, however, that the Balance of any Fund or Account will not include amounts standing to the credit thereof which are being held under the Resolution for (A) the payment of the past due and unpaid interest on the Bonds and (B) the payment of interest on Bonds that are deemed no longer Outstanding as a result of the defeasance thereof.

"Bid" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"Bidder" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"Bonds" means the Series 1992A&B Bonds, the Series 1994A Bonds and any Additional Bonds.

"Bond Counsel" means Kutak Rock, or any other counsel of nationally recognized standing in the field of law relating to municipal bonds selected by the Authority and reasonably acceptable to the Trustee.

"Bond Counsel's Opinion" means an opinion signed by an attorney or firm of attorneys of nationally recognized standing in the field of law relating to municipal, state and public agency financing, selected by the Authority and satisfactory to the Trustee.

"Bond Placement Fees" means the fees payable by the Authority pursuant to a Remarketing Agreement.

"Bond Yield" means, with respect to the Series 1994A Bonds, the yield on the Series 1994A Bonds computed in accordance with the No Arbitrage Certificate and, with respect to any Additional Bonds, the yield on such Additional Bonds computed in accordance with the Code.

"Broker-Dealer" means Smith Barney Inc. or any other broker or dealer (each as defined in the Securities Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is an Agent Member (or an affiliate of an Agent Member), (b) has been appointed as such by the Authority, and (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

"Broker-Dealer Agreement" means each agreement between the Auction Agent and a Broker-Dealer, approved by the Authority, pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. Each Broker-Dealer Agreement will be substantially in the form of the Broker-Dealer Agreement attached as an exhibit to the Auction Agent Agreement.

"Broker-Dealer Fee" shall have the meaning set forth in the Auction Agent Agreement.

"Business Day" means any day of the year, except Saturday or Sunday or days on which banks located in the city in which the principal office of the Trustee is located, are required or authorized to remain closed or on which the New York Stock Exchange or the Authority is authorized to be closed.

"Cash Flow Certificate" means a certificate of the Authority (i) setting forth for the then current and each future Fiscal Year during which Bonds will be Outstanding:

(A) the amount of Revenues, Recoveries of Principal and other moneys on deposit under the Supplemental Resolutions plus Revenues, Recoveries of Principal and other moneys reasonably expected to be received in each such Fiscal Year that are reasonably expected to be available to pay Debt Service and Program Expenses; and

(B) the aggregate Debt Service for each Fiscal Year on all Bonds expected to be Outstanding and all reasonably expected Program Expenses;

and (ii) demonstrating that in each such Fiscal Year the aggregate of the amounts set forth in clause (i)(A) above exceeds the aggregate of the amounts set forth in clause (i)(B) above. In addition, such Cash Flow Certificate will include the same assumptions as those set forth in the Closing Cash Flow Projections, otherwise approved by the Rating Agency.

"Change of Tax Law" means, with respect to any beneficial owner of the Auction Rate Securities, any amendment to the Internal Revenue Code or other statute enacted by the Congress of the United States or any temporary, proposed or final regulation promulgated by the United States Treasury after the effective date of the initial Auction Period which (a) changes or would change any deduction, credit or other allowance allowable in computing liability for any federal tax with respect to, or (b) imposes or would impose or reduces or would reduce or increases or would increase any federal tax (including, but not limited to, preference or excise taxes) upon, any interest earned by any Registered Owner of the Auction Rate Securities the interest of which is excluded from gross income for federal income tax purposes under Section 103 of the Code.

"Closing Cash Flow Projections" means the closing cash flow projections prepared by the Underwriter.

"Code" means the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the Code in the Resolution will be deemed to include the final or temporary United States Treasury Regulations and applied to the Bonds or the use of proceeds thereof, and also includes all amendments and successor provisions unless the context clearly requires otherwise.

"Commercial Paper Dealers" means Smith Barney Inc., its successors and assigns, and any other commercial paper dealer appointed pursuant to the Series 1994A Supplemental Resolution.

"Conversion Date" means, with respect to any subseries of the Series 1994A Bonds, the date on which a Fixed Rate becomes effective for such subseries of the Series 1994A Bonds.

"Costs of Issuance" means all items of expense, directly or indirectly payable or reimbursable by or to the Authority and related to the authorization, sale and issuance of the Bonds, including, but not limited to, printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any Fiduciary, legal fees and charges, fees and disbursements of consultants and professionals, costs of credit ratings, costs of mathematical verification of certain computations, fees and charges for preparation, execution, transportation and safekeeping of the Bonds, costs and expenses of refunding, financing charges, accrued interest with respect to the initial investment of proceeds of the Bonds and any other cost, charge or fee in

connection with the original issuance of the Bonds including fees for credit, liquidity or similar support.

"Counterparty Swap Payment" means a payment due to the Authority from a Swap Counterparty pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of an Early Termination Date, as defined in the applicable Swap Agreement).

"Custodian" means Boatmen's First National Bank of Oklahoma, as custodian pursuant to the Custodian Agreement, and any successors or assigns.

"Custodian Agreement" means the Master Custodian Services Agreement, dated as of September 27, 1994, between the Authority and the Custodian, as amended and supplemented.

"Daily Rate" means the rate of interest borne by any subseries of the Series 1994A Bonds during any Daily Rate Period.

"Daily Rate Period" means an Interest Period which may begin and end on the same day. The term "day" means any calendar day, whether or not a Business Day.

"Date of Issuance" means the date of the initial delivery of the Series 1994A Bonds to the Underwriter.

"Debt Obligation" means a bond, including any Bond, or a note, authorized by the Act and authenticated and delivered by the Authority under the terms of the General Resolution.

"Debt Service" means the principal of and premium, if any, and interest payable on the Bonds.

"Debt Service Reserve Requirement" means at any time an amount equal to 6.0% of the principal amount of the Bonds then Outstanding.

"Defeasance Securities" means and includes (i) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, which are not by their terms subject to redemption at the option of the issuer thereof, and (ii) obligations rated not less than "AAA" or "Aaa" or the equivalent by S&P and Moody's, respectively, issued by any state of the United States of America or the District of Columbia, or any political subdivision, agency or instrumentality of one of such states with respect to which an irrevocable deposit of securities sufficient to defease such obligation in accordance with the terms of the instrument pursuant to which it was issued has been made; in either case to the extent the same are at the time legal for investment of funds of the Authority under the Act and applicable law.

"DTC" or "Securities Depository" means The Depository Trust Company, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns, including any successor securities depositories appointed pursuant to the Series 1994A Supplemental Resolution.

"Eligible Consolidation Loan" means a loan authorized to be acquired or originated by the Authority pursuant to the Student Loan Program which (a) has been or will be made to a borrower to fund consolidation of outstanding indebtedness, including indebtedness, incurred by such borrower in connection with (1) such borrower's attendance, while a resident of the State, at a post-secondary school located within or without the State, (2) such borrower's attendance as an out-of-State resident at a post-secondary school located within the State or (3) to the extent permitted by applicable laws and regulations, including, without limitation, the Act, the Code and the Higher Education Act, and by contracts to which the Authority is a party, as evidenced by delivery to the Trustee of an opinion of nationally recognized counsel experienced in federal taxation matters affecting the treatment of interest upon obligations such as the



Bonds, a resident of any state other than the State attending a post-secondary school outside of the State, (b) is Guaranteed and (c) is an "eligible loan" within the meaning of the Higher Education Act for purposes of receiving Special Allowance Payments with respect thereto.

"Eligible Loan" means (i) any Eligible Stafford Guaranteed Student Loan, (ii) any Eligible Consolidation Loan, (iii) any Eligible PLUS/SLS Loan, (iv) any other loan permitted under the Act and provided for in the Supplemental Resolution authorizing the particular Bonds, the proceeds of which are to be used to acquire such loan, and (v) any Eligible Unsubsidized Stafford Loan.

"Eligible PLUS/SLS Loan" means a loan other than an Eligible Stafford Guaranteed Student Loan or an Eligible Consolidation Loan authorized to be acquired by the Authority pursuant to the Student Loan Program which (a) has been or will be made to a student or parent borrower in connection with (1) a student's attendance, while a resident of the State, at a post-secondary school located within or without the State, (2) a student's attendance as an out-of-State resident at a post-secondary school located within the State or (3) to the extent permitted by applicable laws and regulations, including without limitation the Act, the Code and the Higher Education Act, and by contracts to which the Authority is a party, as evidenced by delivery to the Trustee of an opinion of nationally recognized counsel experienced in federal taxation matters affecting the treatment of interest upon obligations such as the Bonds, a resident of any state other than the State attending a post-secondary school outside of the State; (b) is Guaranteed and (c) is an "eligible loan" within the meaning of the Higher Education Act for purposes of receiving Special Allowance Payments with respect thereto.

"Eligible Stafford Guaranteed Student Loan" means a loan authorized to be acquired by the Authority pursuant to the Student Loan Program which (a) has been or will be made to (1) a resident of the State attending a post-secondary school located within or without the State, (2) an out-of-State resident attending a post-secondary school located within the State or (3) to the extent permitted by applicable laws and regulations, including, without limitation, the Act, the Code and the Higher Education Act, and by contracts to which the Authority is a party, as evidenced by delivery to the Trustee of an opinion of nationally recognized counsel experienced in federal taxation matters affecting the treatment of interest upon obligations such as the Bonds, a resident of any state other than the State attending a post-secondary school outside of the State, (b) is Guaranteed and (c) is an "eligible loan" within the meaning of the Higher Education Act for purposes of receiving Special Allowance Payments and interest benefit payments with respect thereto.

"Eligible Unsubsidized Stafford Loan" means a loan authorized to be acquired by the Authority pursuant to the Student Loan Program which (a) has been or will be made to (1) a resident of the State attending a post-secondary school located within or without the State, (2) an out-of-State resident attending a post-secondary school located within the State or (3) to the extent permitted by applicable laws and regulations, including, without limitation, the Act, the Code and the Higher Education Act, and by contracts to which the Authority is a party, as evidenced by delivery to the Trustee of an opinion of nationally recognized counsel experienced in federal taxation matters affecting the treatment of interest upon obligations such as the Debt Obligations, a resident of any state other than the State attending a post-secondary school outside of the State, (b) is guaranteed and (c) is an "eligible loan" within the meaning of the Higher Education Act for purposes of receiving Special Allowance Payments and interest benefit payments with respect thereto.

"Existing Holder" means, (a) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction, and (b) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a

Person who is a beneficial owner of Auction Rate Securities subject to that Auction.

"Existing Holder Registry" means the registry of Persons who are Existing Holders, maintained by the Auction Agent as provided in the Auction Agent Agreement.

"Favorable Opinion" means an opinion of Bond Counsel addressed to the Authority and the Trustee to the effect that the action proposed to be taken is authorized or permitted by the Series 1994A Supplemental Resolution and will not adversely affect any exclusion from gross income for federal income tax purposes of interest on the Bonds (other than Federally Taxable Bonds).

"Federal Family Education Loan Program" means the Federal Family Education Loan Program under the Higher Education Act, as renamed, amended and reauthorized by the Higher Education Amendments of 1992 (Public Law 102-325).

"Federal Reimbursement Contracts" means the agreements between a Guarantor and the Secretary providing for the payment by the Secretary of amounts authorized to be paid pursuant to the Higher Education Act, including (but not necessarily limited to) reimbursement of amounts paid or payable upon defaulted Student Loans and other student loans guaranteed or insured by the Guarantor, interest subsidy payments and Special Allowance Payments to holders of qualifying student loans guaranteed or insured by the Guarantor.

"Federally Taxable Bonds" means any Additional Bonds issued and delivered pursuant to the General Resolution, the interest on which does not purport to be excluded from the federal gross income of the Registered Owners thereof.

"Fiduciary" means a Trustee, a co-authenticating agent, a remarketing agent, a tender agent, a registrar, any paying agent and any such additional fiduciary as may be authorized pursuant to a Supplemental Resolution, or any or all of them as may be appropriate as fiduciary on behalf of the owners of the Bonds.

"Fiscal Year" means a twelve-month period commencing on the first day of July of any year, or such other twelve-month period adopted by the Authority as its fiscal year for accounting purposes.

"Fixed Rate" means, with respect to any subseries of the Series 1994A Bonds, the fixed rate of interest borne by such subseries of the Series 1994A Bonds on and after the Conversion Date and determined in accordance with the Series 1994A Supplemental Resolution.

"Guaranteed," means, with respect to an Eligible Stafford Guaranteed Student Loan, an Eligible Consolidation Loan or an Eligible PLUS/SLS Loan, the guarantee by a Guarantor of at least 98% of the principal of and accrued interest on such Student Loan and the coverage of such Student Loan by one or more Federal Reimbursement Contracts, providing, among other things, for reimbursement to the Guarantor for losses incurred by it on defaulted student loans guaranteed by such Guarantor to the extent of at least 78% reimbursement or, with respect to any otherwise Eligible Loan to be acquired subsequent to any change in such reimbursement rate causing such rate of reimbursement to be less than 78%, such other amount as may then be applicable under the Higher Education Act. Notwithstanding the foregoing, such terms with respect to any of the above enumerated Eligible Loans, includes (i) the direct insurance by the Secretary or the applicability to such loan of a certificate of comprehensive insurance coverage issued by the Guarantor or the Secretary in accordance with the Higher Education Act of at least 98% of the principal of and accrued interest on such Eligible Loan, or (ii) the direct insurance by the Secretary of one hundred percent (100%) of the principal of such Eligible Loan with respect to which an application for an insurance commitment was received by the Secretary before March 1, 1973 if acquired by the Authority at the same time as an Eligible Loan executed by the same borrower subsequent to March 1, 1973.

"Guarantor" means the State Guarantee Agency, United Student Aid Funds, Inc. or any state guaranty agency approved by Moody's and provided for in a particular Supplemental Resolution and approved by Moody's and, to the extent applicable in connection with Eligible Consolidation Loans, means the Secretary.

"Higher Education Act" means Title IV, Part B of the Higher Education Act of 1965, as amended, and the regulations thereunder.

"Hold Order" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"Index" on any Rate Determination Date, means (a) with respect to Auction Rate Securities with an Auction Period of 60 days or less, the PSA Index, or if such rate is not published by PSA, the Index so determined by the Market Agent which will equal the prevailing rate for bonds rated in the highest short-term rating category by Moody's in respect of issuers most closely resembling the "high grade" component issuers selected by PSA that are subject to tender by the holders thereof for purchase on not more than seven days' notice and the interest on which is (i) variable on a weekly basis, (ii) excludable from gross income for federal income tax purposes under the Code, and (iii) not subject to an "alternative minimum tax" or similar tax under the Code, unless all tax-exempt bonds are subject to such tax, and (b) with respect to the Auction Rate Securities with an Auction Period of more than 60 days, the Index so determined by the Market Agent which will equal the average yield on no less than three publicly offered securities selected by the Market Agent which are offered at par, have substantially the same underlying security, bear interest determined for approximately the same period as the relevant Interest Period on the Auction Rate Securities, bear interest not subject to the alternative minimum tax, and are rated no lower than Aa by Moody's. If the Index cannot be determined as provided above, a comparable substitute Index selected by the Market Agent with the approval of an Authorized Officer of the Authority may be used.

"Initial Auction Agent" means Bankers Trust Company, a New York corporation, its successors and assigns.

"Initial Auction Agent Agreement" means the Auction Agent Agreement, to be dated as of December 1, 1994, among the Authority, the Trustee and the Initial Auction Agent, including any amendment thereof or supplement thereto.

"Initial Auction Rate Determination Date" means, for each subseries of the Series 1994A Bonds, the date on which the initial Auction Rate for such subseries of the Series 1994A Bonds is determined in connection with the Initial Period or any change of an Interest Period applicable to such subseries of the Series 1994A Bonds to an Auction Period, which date will be not less than one (1) Business Day prior to the Period Adjustment Date.

"Initial Market Agent" means Smith Barney Inc., its successors and assigns.

"Initial Period" means, with respect to the Series 1994A-1 Bonds, the period commencing on the Date of Issuance and continuing through January 25, 1995, with respect to the Series 1994A-2 Bonds, the period commencing on the Date of Issuance and continuing through May 31, 1995.

"Initial Rate Adjustment Date" means, with respect to the Series 1994A-1 Bonds, January 26, 1995 and, with respect to the Series 1994A-2 Bonds, June 1, 1995.

"Interest Coverage Requirement" means, (i) with respect to any principal amount of any subseries of the Series 1994A Bonds bearing interest at a Variable Rate with an Interest Period of less than one year, an amount equal to interest accruing on such subseries of Series 1994A Bonds for whatever period is required by the Rating Agencies then rating such subseries of the Series 1994A Bonds to

permit such Rating Agencies to assign their highest short-term ratings to such subseries of the Series 1994A Bonds at the Assumed Rate and (ii) with respect to any principal amount of any subseries of the Series 1994A Bonds bearing interest at a Variable Rate with an Interest Period of one year or more, an amount equal to interest accruing on such subseries of the Series 1994A Bonds for whatever period is required by the Rating Agencies then rating such subseries of the Series 1994A Bonds to permit such Rating Agencies to assign their highest liquidity Ratings to the Series 1994A Bonds at the Assumed Rate. The Interest Coverage Requirement will be computed separately for each subseries of the Series 1994A Bonds and the total Interest Rate Coverage Requirement means the sum of the Interest Rate Coverage Requirement for all subseries of the Series 1994A Bonds bearing interest at a Variable Rate.

"Interest Payment Date" means (i) with respect to the Series 1994A-1 Bonds bearing interest at an Auction Rate, each March 1, and September 1 (except as such Interest Payment Date may be changed for the Series 1994A-1 Bonds as described under the caption "CHANGES IN AUCTION TERMS—Changes in Interest Payment Dates" in Appendix F to this Official Statement), commencing March 1, 1995, any Period Adjustment Date and the Conversion Date with respect to the Series 1994A-1 Bonds, and with respect to the Series 1994A-2 Bonds bearing interest at an Auction Rate, each June 1 and December 1 (except as such Interest Payment Date may be changed for the Series 1994A-2 Bonds as described under the caption "CHANGES IN AUCTION TERMS—Changes in Interest Payment Dates" in Appendix F to this Official Statement), commencing June 1, 1995, any Period Adjustment Date and the Conversion Date with respect to the Series 1994A-2 Bonds, (ii) with respect to any subseries of the Series 1994A Bonds bearing interest at a Variable Rate with an Interest Period of less than one year, the first Wednesday of each month, any Period Adjustment Date and the Conversion Date with respect to the Series 1994A Bonds, (iii) with respect to any subseries of the Series 1994A Bonds bearing interest at a Variable Rate with an Interest Period of one year or more, each March 1 and September 1, commencing on the March 1 or September 1 next following the first day of such Interest Period, any Period Adjustment Date and the Conversion Date with respect to the Series 1994A Bonds, (iv) with respect to any subseries of the Series 1994A Bonds bearing interest at a Fixed Rate, each March 1 and September 1 and (v) with respect to any Additional Bonds, the Interest Payment Dates specified for such Additional Bonds in the Supplemental Resolution authorizing the issuance of such Additional Bonds.

"Interest Period" means, with respect to each subseries of the Series 1994A Bonds bearing interest at an Auction Rate or a Variable Rate, each period commencing on a Rate Adjustment Date for such subseries and ending on the day before the next Rate Adjustment Date for such subseries or on a Conversion Date.

"Investment Agreement" means the Investment Repurchase Agreement, dated as of December 21, 1994 between the Authority and Bayerische Landesbank Girozentrale, and any other investment agreement approved by Moody's.

"Investment Instructions" means the investment instructions delivered to the Authority and the Trustee by Bond Counsel on the Date of Issuance, and any amendments or supplements thereto.

"Investment Securities" means and includes any of the following obligations, to the extent the same are at the time legal for investment of funds of the Authority under the Act and applicable law:

1. Marketable direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America having maturities of one year or less;

2. Bank demand deposits (whether or not interest bearing) and interest bearing bank time deposits evidenced by certificates of deposit issued by banks (which may include the Trustee) which are members of the Federal Deposit Insurance Corporation, rated A3/P-1 or better by Moody's, provided that such deposits have a maturity of one year or less and (a) are secured by obligations

described in item 1 above and item 3 below, which such obligations at all times have a market value (exclusive of accrued interest) at least equal to such bank deposits so secured including interest; or (b) are issued by banks, rated A or better by reputable commercial credit rating services;

3. Marketable bonds, debentures, notes, participation certificates or other evidences of indebtedness, rated A3/P-1 or better by Moody's, issued or guaranteed by any of the following agencies: Federal Farm Credit Bank; Federal Intermediate Credit Banks; the Export-Import Bank of the United States; Federal Land Banks; the Federal National Mortgage Association; the Tennessee Valley Authority; the Government National Mortgage Association; Federal Financing Bank; Farmers Home Administration; Federal Home Loan Banks; Student Loan Marketing Association; or any agency or instrumentality of the United States of America which will be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor; provided maturities are one year or less;

4. Repurchase agreements or other similar banking arrangements with maturities of six months or less, contracted with banks (which may include the applicable Trustee) which are members of the Federal Deposit Insurance Corporation, rated A3/P-1 or better by Moody's, or with government bond dealers reporting to and trading with the Federal Reserve Bank of New York, which such agreements are secured by securities which are obligations without regard to maturities described in items 1 and 3 above; margined at 100% or higher, valued monthly by the applicable Trustee;

5. Bankers acceptances with maturities of six months or less, endorsed and guaranteed by banks which are members of the Federal Deposit Insurance Corporation, rated A3/P-1 or better by Moody's, provided that such bankers acceptances (a) in any bank do not exceed at any one time in the aggregate ten percent of the total of the capital stock and surplus of such bank; or (b) are secured by obligations described in items 1 and 3 above;

6. Shares in an Investment Company registered under the Federal Investment Company Act of 1940, rated A3/P-1 or better by Moody's, whose shares are registered under the Federal Securities Act of 1933 and whose only investment and obligations described in items 1, 3 and 4 above, or 7 below having an average maturity of six months or less;

7. Bonds of the State or its political subdivisions; or marketable obligations issued by any state, political subdivision or municipal corporation thereof having remaining maturities of one year or less which are rated A or better by S&P or by Moody's, and if such obligations have a short-term rating, the rating is in the highest category designated by the respective rating agency;

8. Investment agreements or guaranteed investment contracts, rated A3/P-1 or better by Moody's, secured by collateral securities or unsecured as the Authority may determine, which may be entered into by and among the Authority, the applicable Trustee and any bank, bank holding company, corporation or any other financial institution whose outstanding unsecured long term debt securities are rated AA or better by S&P or Aa or better by Moody's, or by an insurance company whose claims paying ability is so rated, provided further that any such agreement must: (a) Clearly state the exact entity guarantor, the value of invested funds guaranteed, the rate of guaranteed interest, and the termination date; (b) Contain an unconditional, irrevocable pledge by the guarantor and be written in favor of the applicable Trustee; (c) Not be cancelable for failure to pay any fees or premiums and its enforceability must be warranted; (d) Provide that demands for funds be honored on terms and conditions determined by the Authority and the issuer of such agreement and be credited to the Trustee in immediately available funds; (e) Clearly establish the basis for compounding or computation of interest, and provide that all guaranteed interest accrue to the payment date; and (f) Provide that failure to meet surety, collateral or other provisions will result in acceleration of the agreement at the option of the Authority (or Trustee acting on behalf of the Authority); and must provide that

merger or acquisition of the issuer of the agreement, or assumption of the obligations of the agreement, with or by another entity if combined with a credit or claims paying ability rating downgrade below the standards set forth in this paragraph 8 will result in acceleration of the agreement at the option of the Authority (or Trustee acting on behalf of the Authority); and may provide that other designated events relating to the issuer of the agreement or its parent or any related entity, if combined with a credit or claims paying ability rating downgrade below the standards set forth in this paragraph 8 will result in acceleration of the agreement at the option of the Authority (or Trustee acting on behalf of the Authority);

9. Such other investments, to the extent permitted by law, as may be approved by Moody's, provided Moody's is then rating the Bonds.

For purposes of the definition of "Investment Securities", the word "maturity" will include the date upon which such obligations are redeemable or able to be put at least par in each case at the option of the holder thereof.

Furthermore, with respect to the investment of proceeds of the Series 1994A Bonds, an issuer or counterparty, as applicable, set forth in paragraphs 2, 3 (if rated), 4, 5, 6 and 8 of this definition must be rated "AA2/P1" or better by Moody's. In addition so long as Moody's is rating the Series 1994A Bonds, to the extent permitted by law, Investment Securities for proceeds of the Series 1994A Bonds also includes the Investment Agreement and any other investment approved by Moody's.

"Letter of Credit" means any direct-pay irrevocable letter of credit, committed line of credit, surety bond or standby bond purchase agreement, or any combination of the foregoing issued by a Bank to the Trustee for the account of the Authority pursuant to a Reimbursement Agreement, as the same may be amended from time to time in accordance with the terms of a Reimbursement Agreement and the Series 1994A Supplemental Resolution, the aggregate Available Amount of which is not less than the aggregate principal amount of all Series 1994A Bonds bearing interest at a Variable Rate then Outstanding plus the Interest Coverage Requirement with respect to such principal amount of Series 1994A Bonds bearing interest at a Variable Rate; provided that if at any time more than one Letter of Credit is in effect, all such Letters of Credit will be issued by the same bank or banks; and provided further that any substitute Letter of Credit will have a term of not less than twelve (12) months (except that any Letter of Credit may provide that it will terminate on the effective date of any substitute Letter of Credit delivered to the Trustee) and when delivered to the Trustee will be accompanied by (i) a written statement of each Rating Agency then rating the Series 1994A Bonds bearing interest at a Variable Rate, to the effect that the rating on such Series 1994A Bonds assigned by such Rating Agency will not be reduced or withdrawn as a result of the delivery of such substitute Letter of Credit, and (ii) an opinion of Bond Counsel to the effect that such substitution of the Letter of Credit is authorized or permitted under the Series 1994A Supplemental Resolution and will not, of itself, cause interest on the Bonds (other than Federally Taxable Bonds) to be subject to federal income taxation.

"Loan Purchase Contract" means any contract for the purchase of Student Loans between the Authority and any eligible lender participating in the Authority's Student Loan Program.

"Long Rate" means, with respect to any subseries of the Series 1994A Bonds, the rate of interest borne by such subseries of the Series 1994A Bonds during any Long Rate Period.

"Long Rate Period" means an Interest Period of not less than ninety (90) days.

"Mandatory Tender Date" means, with respect to any subseries of the Series 1994A Bonds, any Period Adjustment Date, any Conversion Date or any date on which the Letter of Credit with respect to such subseries of the Series 1994A Bonds is replaced by a Letter of Credit issued by a different Bank.

"Market Agent" means the Initial Market Agent unless and until a Substitute Market Agent Agreement is entered into, after which Market Agent will mean the Substitute Market Agent.

"Market Agent Agreement" means the Market Agent Agreement, dated as of December 1, 1994, among the Trustee, the Initial Market Agent and the Authority, until and unless a Substitute Market Agent Agreement is effective, after which Market Agent Agreement will mean such Substitute Market Agent Agreement, in each case as from time to time amended or supplemented.

"Maturity," when used with respect to any Series 1994A Bond, means the date on which the principal thereof becomes due and payable, whether at its Stated Maturity, by earlier redemption, by declaration of acceleration, or otherwise.

"Maximum Rate," on any date of determination, means (w) with respect to the Auction Rate Securities rated "Aaa" by Moody's and having an Auction Period of 91-days or less, the interest rate per annum equal to the least of (a) the product of the Applicable Percentage multiplied by the higher of (i) the After-Tax Equivalent on such date and (ii) the Index on such date, (b) the Index plus 2.50% and (c) sixteen percent (16%), (x) with respect to the Auction Rate Securities rated less than "Aaa" by Moody's and having an Auction Period of 91-days or less, the interest rate per annum equal to the lesser of (a) the product of the Applicable Percentage multiplied by the higher of (i) the After-Tax Equivalent on such date and (ii) the Index on such date, and (b) sixteen percent (16%), (y) with respect to the Auction Rate Securities having an Auction Period of more than 91-days, the product of the Applicable Percentage multiplied by the interest rate per annum equal to the "bond equivalent" of the imputed yield on U.S. Treasury Securities of similar maturities and (z) with respect to the Series 1994A Bonds bearing interest at a Variable Rate, sixteen percent (16%).

"Monthly Rate" means, with respect to any subseries of the Series 1994A Bonds, the rate of interest borne by such subseries of the Series 1994A Bonds during any Monthly Rate Period.

"Monthly Rate Period" means an Interest Period which begins on the first Wednesday of a calendar month and ends on the first Tuesday of the next succeeding calendar month.

"Moody's" means Moody's Investors Service, Inc.

"No Arbitrage Certificate" means the certificate of the Authority, dated the Date of Issuance, relating to the use of proceeds of the Series 1994A Bonds and which sets forth the grounds for the Authority's belief that the Series 1994A Bonds are not "arbitrage bonds" within the meaning of the Code, including the exhibits and schedules attached thereto.

"Non-Payment Rate," on any date of determination, means the interest rate per annum equal to the lesser of (a) 265% of the Index on such date (as such percentage may be adjusted as described under the caption "AUCTION PROCEDURES-Adjustment in Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates" in Appendix F to this Official Statement) and (b) sixteen percent (16%).

"Notice and Demand" means a Notice of the Tender of Series 1994A Bonds bearing interest at a Variable Rate.

"Order" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders in Appendix F to this Official Statement.

"Outstanding," when used with reference to the Bonds, means, as of any date, all Bonds theretofore or thereupon being authenticated and delivered under the Resolutions except:

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

(2) any Bond (or portion of a Bond) for the payment or redemption of which there have been separately set aside and held in a special trust account therefor either: (a) Moneys in an amount sufficient to effect payment of the principal or applicable Redemption Price thereof, together with accrued interest on such Bond to the Redemption Date; or (b) Defeasance Securities in such principal amounts, of such maturities, bearing such interest and otherwise having such terms and qualifications as are necessary to provide moneys in an amount sufficient to effect payment when due of the principal or applicable Redemption Price of such Bond, together with accrued interest on such Bond to the Redemption Date; or (c) any combination of (a) and (b) above;

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

(4) any Bond deemed to have been paid as provided in the General Resolution.

"*Period Adjustment Date*" means as to each subseries of the Series 1994A Bonds: the first day of any Interest Period for such subseries of the Series 1994A Bonds unless such Interest Period and the immediately preceding Interest Period are both Daily Rate Periods, Weekly Rate Periods, Monthly Rate Periods or Auction Periods; provided, that a Period Adjustment Date shall occur on any Business Day.

"*Person*" means an individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization, or government or agency or political subdivision thereof.

"*Pledged Assets*" means (i) the Eligible Loans and student loan notes evidencing them; (ii) all moneys and securities from time to time held by the Trustee under the terms of the Resolutions (excluding the Rebate Fund and the Series 1994A Excess Interest Fund); and (iii) all Revenues and Recoveries of Principal, all as applicable to the Bonds.

"*Potential Holder*" means any Person (including an Existing Holder that is (i) a Broker-Dealer when dealing with the Auction Agent and (ii) a potential beneficial owner when dealing with a Broker-Dealer), who may be interested in acquiring Auction Rate Securities (or, in the case of an Existing Holder thereof, an additional principal amount of Auction Rate Securities).

"*Program Expenses*" means all of the Authority's expenses in carrying out and administering its Student Loan Program under the Resolutions and shall include, without limiting the generality of the foregoing, Bond Placement Fees, Letter of Credit Fees, Auction Agent Fees, Broker-Dealer Fees, salaries, acquisition and servicing fees, supplies, utilities, mailing, labor, materials, office rent or mortgage payment, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, credit and liquidity facility fees and expenses, fees and expenses of the Fiduciaries, Costs of Issuance not otherwise paid or provided for from the proceeds of the Bonds, travel, and payments for pension, retirement, health and hospitalization and life and disability insurance benefits, all to the extent properly allocable to the Student Loan Program under the Resolutions.

"*PSA*" means the Public Securities Association, its successors and assigns.

"*PSA Index*" means on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data and published or made available by the PSA or any Person acting in cooperation with or under the sponsorship of PSA and acceptable to the Market Agent, and effective from such date.



"Rate Adjustment Date" means, with respect to each subseries of the Series 1994A Bonds, any date on which the rate of interest borne by such subseries of the Series 1994A Bonds is subject to change, which will be the first day of each Interest Period for such subseries of the Series 1994A Bonds.

"Rate Determination Date" means, with respect to each subseries of the Series 1994A Bonds, any date on which the rate of interest to be borne by such subseries of the Series 1994A Bonds for the succeeding Interest Period is determined in accordance with the Series 1994A Supplemental Resolution. If a scheduled Rate Determination Date is not a Business Day, the Rate Determination Date for such subseries of the Series 1994A Bonds will be the next succeeding Business Day.

"Rating" means one of the rating categories of Moody's or any other Rating Agency, provided Moody's or any other Rating Agency, as the case may be, is currently rating the Series 1994A Bonds.

"Rating Agency" means Moody's and its successors and assigns and any other Rating Agency requested by the Authority to maintain a Rating on any of the Series 1994A Bonds.

"Rebate Amount" means the amount computed in accordance with the Tax Regulatory Agreement.

"Rebate Fund" means the Series 1994A Rebate Fund established pursuant to Series 1994A Supplemental Resolution, the rebate fund established for the Series 1992A&B Bonds and any rebate fund established for any Additional Bonds.

"Record Date" means (a) with respect to any subseries of the Series 1994A Bonds bearing interest at an Auction Rate, the Business Day immediately preceding each Interest Payment Date for the Series 1994A Bonds, (b) with respect to any subseries of the Series 1994A Bonds bearing interest at a Variable Rate, the tenth (10th) day preceding each Interest Payment Date for the Series 1994A Bonds, (c) with respect to any subseries of the Series 1994A Bonds bearing interest at a Fixed Rate, the 15th day of the calendar month preceding each Interest Payment Date for the Series 1994A Bonds and (d) with respect to any Additional Bonds, the Record Date established for such Additional Bonds pursuant to the Supplemental Resolution authorizing the issuance of such Additional Bonds.

"Recoveries of Principal" means all amounts received by or on behalf of the Authority or by the Trustee for the account of the Authority from or on account of any Student Loan as a recovery of the principal amount thereof, including scheduled, delinquent and advance payments, claim payments, payouts or prepayments from the sale, assignment or other disposition thereof, in each case to the extent such payments or proceeds are with respect to the principal of such Student Loan (or any other such student loans).

"Redemption Date" means the date upon which Bonds are to be called for redemption pursuant to the Resolutions.

"Redemption Price", when used with respect to any Bond to be redeemed, means the price at which it is to be redeemed pursuant to the Resolutions.

"Registered Owner" or words of similar import, when used with reference to a Bond, means any person in whose name the Bond is registered as provided in the Resolutions.

"Registrar" means Boatmen's First National Bank of Oklahoma, Oklahoma City, Oklahoma.

"Reimbursement Agreement" means any reimbursement agreement between the Authority and a Bank, approved as to form and execution by the trustees of the Authority and entered into from time to time by the Authority, providing for the issuance of a Letter of Credit with respect to any subseries of the Series 1994A

Bonds in each case as such agreement is originally executed and as the same may from time to time be amended or supplemented in accordance with its terms and with the Series 1994A Supplemental Resolution.

"*Remarketing Agent*" means Smith Barney Inc., or any successor to it as such agent.

"*Remarketing Agreement*" means any Remarketing Agreement among the Authority, the Remarketing Agent and the Trustee with respect to the Series 1994A Bonds, as originally executed and as from time to time amended or supplemented in accordance with the terms thereof and with the Series 1994A Supplemental Resolution.

"*Resolutions*" means the General Resolution as supplemented, amended and ratified, including by the Series 1994A Supplemental Resolution.

"*Revenues*" means all payments, proceeds, charges and other cash income received by or on behalf of the Authority or by the Trustee for the account of the Authority from or on account of any Student Loan or any other student loan acquired by the Authority by the expenditure of amounts in the Student Loan Fund and held by the Trustee as part of the Trust Estate or a result of the sale or alienation thereof, including scheduled, delinquent and advance payments of, and any Guarantee or insurance proceeds with respect to, interest on any Guarantee or principal on any Student Loan or other student loan and any Special Allowance Payment received by the Trustee, Authority or a Servicer with respect to any Student Loan or any other student loans and all interest earned or gain realized from the investment of amounts in any Account (other than amounts credited or required to be deposited to the Rebate Fund), but excludes Recoveries of Principal.

"*Secretary*" means the Secretary of the United States Department of Education or, if applicable, the Commissioner of Education of the United States Department of Health, Education and Welfare, along with any person succeeding to the functions thereof pursuant to the Higher Education Act.

"*Securities Depository*" means The Depository Trust Company and its successors and assigns or if, (i) the then Securities Depository resigns from its functions as depository of the Series 1994A Bonds or (ii) the Authority discontinues use of the Securities Depository pursuant the Series 1994A Supplemental Resolution, any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Series 1994A Bonds and which is selected by the Authority with the consent of the Trustee.

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

"*Sell Order*" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"*Series 1992A Bonds*" means the Authority's Student Loan Revenue Refunding Bonds, Series 1992A (Federal Family Education Loan Program) authorized by the Series 1992A&B Supplemental Resolution.

"*Series 1992A&B Bonds*" means, collectively, the Series 1992A Bonds and the Series 1992B Bonds.

"*Series 1992B Bonds*" means the Authority's Student Loan Revenue Refunding Bonds, Series 1992B (Federal Family Education Loan Program) authorized by the Series 1992A&B Supplemental Resolution.

"*Series 1992A&B Supplemental Resolution*" means the Series 1992A&B Supplemental Bond Resolution supplemental and amendatory to the General

Resolution, authorizing the issuance of the Series 1992A Bonds and the Series 1992B Bonds.

"Series 1994A Bonds" means the Authority's Student Loan Revenue Bonds, Series 1994A authorized by the Series 1994A Supplemental Resolution and consisting of the Series 1994A-1 Bonds and the Series 1994A-2 Bonds.

"Series 1994A Debt Service Reserve Account" means the Account by that name created within the Student Loan Sinking Fund by the Series 1994A Supplemental Resolution.

"Series 1994A Excess Interest Fund" means the fund by that name created by the Series 1994A Supplemental Resolution.

"Series 1994A Interest Account" means the Account by that name created within the Student Loan Sinking Fund by the Series 1994A Supplemental Resolution.

"Series 1994A Principal Account" means the Account by that name created within the Student Loan Sinking Fund by the Series 1994A Supplemental Resolution.

"Series 1994A Rebate Fund" means the Fund by that name created by the Series 1994A Supplemental Resolution.

"Series 1994A Recoveries of Principal" means Recoveries of Principal derived from Series 1994A Student Loans.

"Series 1994A Redemption Account" means the Account by that name created within the Student Loan Sinking Fund by the Series 1994A Supplemental Resolution.

"Series 1994A Revenues" means Revenues derived from Series 1994A Student Loans.

"Series 1994A Student Loan Account" means the Series 1994A Student Loan Account of the Student Loan Fund created by the Series 1994A Supplemental Resolution.

"Series 1994A Student Loans" means Eligible Loans financed with proceeds of the Series 1994A Bonds, with Series 1994A Recoveries of Principal, with Series 1994A Revenues and with other moneys deposited to the Series 1994A Student Loan Account of the Student Loan Fund.

"Series 1994A Supplemental Resolution" means the Series 1994A Supplemental Bond Resolution, which is supplemental and amendatory to the General Resolution, authorizing the issuance of the Series 1994A Bonds.

"Series 1994A-1 Bonds" means the Authority's Student Loan Revenue Bonds, Series 1994A-1 authorized by the Series 1994A Supplemental Resolution.

"Series 1994A-2 Bonds" means the Authority's Student Loan Revenue Bonds, Series 1994A-2 authorized by the Series 1994A Supplemental Resolution.

"Servicer" means the Authority, acting as the servicer of the Student Loans, or an entity appointed by the Authority, with the approval of Moody's, as such along with any successor to the functions thereof.

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

"State" means the State of Oklahoma, which is in addition the beneficiary of the Authority.

"State Guarantee Agency" means the Oklahoma State Regents for Higher Education, an agency of the State which administers the Student Educational

Assistance Fund established pursuant to Title 70, Oklahoma Statutes 1981, Sections 622 and 623, as amended.

"*Stated Maturity*" means the date specified in the Series 1994A Bonds as the fixed date on which principal of such Series 1994A Bonds is due and payable.

"*Statutory Corporate Tax Rate*" means, as of any date of determination, the highest tax bracket (expressed in decimals) now or hereafter applicable in each taxable year on the income tax of every corporation as set forth in Section 11 of the Internal Revenue Code or any successor section, without regard to any minimum additional tax provision or provisions regarding changes in rates during a taxable year; the Statutory Corporate Tax Rate as of December 1, 1994, is 35%.

"*Student Loan*" means any Eligible Loan acquired by the Authority by the expenditure of amounts pledged under the Resolutions to secure the Bonds and held by the Trustee as part of the Trust Estate.

"*Student Loan Fund*" means the fund by that name created pursuant to the General Resolution.

"*Student Loan Program*" or "*Program*" means the program, including loan purchase contracts, for the financing of loans for post-secondary education established by the Authority, as the same may be amended from time to time consistent with the Resolutions, but only to the extent that such program is financed through the issuance of Bonds or from amounts otherwise available out of the moneys and assets held or pledged pursuant to the Resolutions.

"*Student Loan Sinking Fund*" means the fund by that name created pursuant to the General Resolution.

"*Submission Deadline*" means 1:00 p.m., eastern time, on any Rate Determination Date or such other time on any Rate Determination Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"*Submitted Bid*" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"*Submitted Hold Order*" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"*Submitted Order*" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"*Submitted Sell Order*" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"*Substitute Auction Agent*" means the Person with whom the Trustee and the Authority enter into a Substitute Auction Agent Agreement.

"*Substitute Auction Agent Agreement*" means an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Person having the qualifications required by the Series 1994A Supplemental Resolution agrees with the Trustee and the Authority to perform the duties of the Auction Agent under the Series 1994A Supplemental Resolution.

"*Substitute Market Agent*" means the Person with whom the Trustee and the Authority enter into a Substitute Market Agent Agreement.

"Substitute Market Agent Agreement" means a market agent agreement containing terms substantially similar to the terms of the Initial Market Agent Agreement, whereby a Person having the qualifications required by the Series 1994A Supplemental Resolution agrees with the Trustee to perform the duties of the Market Agent under the Series 1994A Supplemental Resolution.

"Sufficient Clearing Bids" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES-Submission of Orders" in Appendix F to this Official Statement.

"Swap Agreement" means an interest rate swap agreement between the Authority and a Swap Counterparty, as originally executed and as amended or supplemented, or other interest rate hedge agreement between the Authority and a Swap Counterparty, as originally executed and as amended or supplemented, in each case approved in writing by each of the Rating Agencies, for the purpose of converting in whole or in part the Authority's variable interest rate liability on all or any portion of any series of the Series 1994A Bonds bearing interest at a variable rate of interest to another variable interest rate liability or to a fixed interest rate liability, or for the purpose of converting in whole or in part the Authority's fixed interest rate liability on all or any portion of any series of the Series 1994A Bonds bearing interest at a fixed rate to another fixed interest rate liability or to a variable interest rate liability. Any Swap Agreement must be approved by each Rating Agency maintaining a Rating on any series of the Bonds and each Rating Agency must confirm that such Swap Agreement will not result in a reduction or withdrawal of its then current Rating on any series of the Bonds and as of the date that the Authority enters into a Swap Agreement, either the Swap Counterparty or the issuer of the Swap Counterparty Guarantee related thereto must be rated in the highest rating category assigned by Moody's.

"Swap Counterparty" means any Person with whom the Authority shall, from time to time, enter into a Swap Agreement.

"Swap Counterparty Guarantee" means a guarantee in favor of the Authority given in connection with the execution and delivery of a Swap Agreement.

"Tax Regulatory Agreement" means the Tax Regulatory Agreement, dated as of December 1, 1994, by and between the Authority and the Trustee.

"Termination Date" means the date on which the Letter of Credit is terminated in accordance with the terms and provisions of the related Reimbursement Agreement.

"Trust Agreement" means the Trust Agreement, dated as of December 1, 1994, between the Authority and the Trustee with respect to the Series 1994A Bonds.

"Trust Indenture" means that certain trust indenture dated as of the 2nd day of August, 1972, providing for the establishment of the Authority pursuant to the Act, for the benefit of the State and the beneficial interest of which was accepted by the Governor of the State on August 2, 1972.

"Trustee" means Boatmen's First National Bank of Oklahoma, Oklahoma City, Oklahoma, appointed as Trustee for the Series 1994A Bonds pursuant to the Trust Agreement and the Series 1994A Supplemental Resolution.

"Underwriter" means Smith Barney Inc.

"Variable Rate" means, with respect to each subseries of the Series 1994A Bonds, a Daily Rate, a Weekly Rate, a Monthly Rate or a Long Rate borne by such subseries of the Series 1994A Bonds commencing on the Period Adjustment Date for such subseries of the Series 1994A Bonds establishing the Variable Rate, and continuing until a Period Adjustment Date establishing an Auction Rate or the Conversion Date for such subseries of the Series 1994A Bonds and determined in accordance with the Series 1994A Supplemental Resolution.

"Weekly Rate" means, with respect to any subseries of the Series 1994A Bonds, the rate of interest borne by such subseries of the Series 1994A Bonds during any Weekly Rate Period.

"Weekly Rate Period" means an Interest Period which begins on any Wednesday and ends on the next succeeding Tuesday.

"Winning Bid Rate" shall have the meaning ascribed to such term under the caption "AUCTION PROCEDURES--Determination of Sufficient Clearing Bids and Auction Rate" in Appendix F to this Official Statement.

Words importing the masculine gender include the feminine gender. Words importing persons include firms, associations and corporations. Words importing the singular number include the plural number and vice versa.

#### LIMITED OBLIGATION OF THE AUTHORITY

The Authority will not be obligated to pay the Debt Obligations, including the Bonds, or the interest thereon except from the property and income pledged as set forth in the Resolutions and no recourse may be had for the payment of the principal thereof or interest thereon against the State, the Authority, or the trustees of the Authority or against the property or funds of the State or the Authority or such trustees, except to the extent of the property and income pledged expressly thereto.

#### GENERAL TERMS OF BONDS

All the Bonds are negotiable subject to the provisions for registration, transfer and exchange contained therein and in the Resolutions. So long as any of the Bonds remain outstanding, the Authority will maintain and keep, at the principal or corporate trust office of a registrar, which may be one or more banks or trust companies or national banking associations appointed by the Authority, books for the registration, transfer and exchange of Bonds. Upon presentation thereof for such purpose at said office, the Authority will register or cause to be registered in such books, and permit to be transferred thereon, any Bond under such reasonable regulations as it or the registrar may prescribe; provided that no Bonds may be transferred on or subsequent to the Record Date with respect to any Redemption Date applicable thereto.

#### FUNDS AND ACCOUNTS

*Funds and Accounts.* (A) Pursuant to the General Resolution, the following trust funds were created with respect to the Authority's Debt Obligations, including the Bonds:

- (1) Student Loan Fund; and
- (2) Student Loan Sinking Fund.

(B) Pursuant to the Series 1994A Supplemental Resolution, the following trust accounts and subaccounts were created with respect to the Series 1994A Bonds:

- (1) Within the Student Loan Fund, the Series 1994A Student Loan Account; and
- (2) Within the Student Loan Sinking Fund, the Series 1994A Principal Account, the Series 1994A Interest Account, the Series 1994A Redemption Account and the Series 1994A Debt Service Reserve Account.

The Authority also established and created the Series 1994A Rebate Fund and the Series 1994A Excess Interest Fund pursuant to the Series 1994A Supplemental Resolution. The Series 1994A Rebate Fund and the Series 1994A Excess Interest

Fund are not pledged to, and do not serve as security for, the payment of the Bonds.

*Series 1994A Student Loan Account.* The Series 1994A Student Loan Account will be funded with proceeds of the Series 1994A Bonds and with moneys contributed by Authority as described under the caption "ESTIMATED SOURCES AND USES OF FUNDS" in this Official Statement. Except as set forth below, amounts on deposit in the Series 1994A Student Loan Account will be used to finance Eligible Loans. The Series 1994A Student Loan Account will also receive Series 1994A Recoveries of Principal transferred from the Series 1994A Principal Account, Series 1994A Revenues transferred to the Series 1994A Student Loan Account, and Series 1994A Student Loans financed with moneys of the Authority, with proceeds of the Series 1994A Bonds, with Series 1994A Recoveries of Principal and with Series 1994A Revenues on deposit from time to time in the Series 1994A Student Loan Account and from the Series 1994A Redemption Account.

Amounts on deposit in the Series 1994A Student Loan Account will be used to finance Eligible Loans until September 1, 1997; provided, however, if the Authority delivers to Moody's a Cash Flow Certificate which indicates that the continued financing of Eligible Loans would not reduce or impair the rating on the Bonds, the Authority will be able to continue to finance Eligible Loans through the date specified in such Cash Flow Certificate. In addition, moneys or Eligible Loans may be transferred to other Accounts from the Series 1994A Student Loan Account as specified under the caption "Parity of Bonds" below.

Eligible Loans in the Series 1994A Student Loan Account will be financed with original proceeds of the Series 1994A Bonds prior to the use of other moneys transferred to the Series 1994A Student Loan Fund. Any original proceeds of the Series 1994A Bonds remaining in the Series 1994A Student Loan Account on the first Business Day after April 1, 1995 will be transferred to the Series 1994A Redemption Account and used to redeem Series 1994A Bonds; provided, however, if the Authority shall deliver to Moody's a Cash Flow Certificate which indicates that the continued financing of Eligible Loans with original proceeds of the Series 1994A Bonds would not result in a reduction or withdrawal of the rating on the Bonds, the Authority will be able to continue to finance Eligible Loans with original proceeds of the Series 1994A Bonds through the date specified in such Cash Flow Certificate. In addition, if moneys on deposit in the Series 1994A Student Loan Account cannot be used to finance Eligible Loans and are invested (other than for periods pending transfer to an investment agreement) at a rate of interest less than the rate assumed therefor in the Closing Cash Flow Projection, then an Authorized Officer of the Authority will immediately give notice thereof to the Trustee, and unless the Authority will deliver to the Trustee within 12 months thereof a Cash Flow Certificate, the Trustee will immediately transfer such moneys to the Series 1994A Redemption Account.

Amounts in the Series 1994A Student Loan Account will not be used to acquire Eligible Loans from a party other than the Authority unless at the time of such acquisition the transferring party represents to the Authority that any such Eligible Loans will be transferred free and clear of any lien and such transferring party agrees to repurchase any such Eligible Loan or loan believed to be an Eligible Loan which does not comply with the provisions of the Resolutions or the Higher Education Act or with regard to which any representation made by the transferring party will be determined to be inaccurate or untrue in any material way. Series 1994A Student Loans will be held by the Trustee or its agent or bailee (including the Custodian and the Servicer) and pledged to and accounted for as a part of the Series 1994A Student Loan Account.

*Series 1994A Principal Account, Series 1994A Interest Account, Series 1994A Redemption Account and Series 1994A Debt Service Reserve Account.* Except as provided below, moneys in the Series 1994A Principal Account, the Series 1994A Interest Account, the Series 1994A Redemption Account and the Series 1994A Debt Service Reserve Account will be used solely for the payment of the principal of and premium, if any, and interest on the Series 1994A Bonds or any amounts due on any Swap Agreements. Money in the Series 1994A Principal Account, the Series

1994A Interest Account, the Series 1994A Redemption Account and the Series 1994A Debt Service Reserve Account will be kept separate and apart from all other Funds and will be used and transferred by the Trustee, except as provided in the Series 1994A Supplemental Resolution, to other Funds or Persons as specified under the caption "Parity of Bonds" below. The Series 1994A Principal Account, the Series 1994A Interest Account, the Series 1994A Redemption Account and the Series 1994A Debt Service Reserve Account will receive Series 1994A Revenues and Series 1994A Recoveries of Principal as set forth below.

(i) *Series 1994A Principal Account.* The Series 1994A Interest Account will initially be funded with proceeds of the Series 1994A Bond as described under the caption "ESTIMATED SOURCES AND USES OF FUNDS" in this Official Statement. In addition, the Series 1994A Principal Account will receive Series 1994A Recoveries of Principal and amounts from the Series 1994A Redemption Account. Amounts on deposit in the Series 1994A Principal Account will be used to pay principal, when due, on the Series 1994A Bonds. To the extent amounts on deposit in the Series 1994A Principal Account exceed amounts necessary to pay principal on the Series 1994A Bonds on the next principal payment date, such amounts will be transferred to the Series 1994A Student Loan Account; provided, however, on and after September 1, 1997, unless the Authority is permitted to continue to finance Eligible Loans, such excess amounts will be transferred to the Series 1994A Redemption Account. In the event amounts on deposit in the Series 1994A Principal Account are insufficient to pay principal on the Series 1994A Bonds, the Trustee will transfer amounts to the Series 1994A Principal Account as described under the caption "Parity of Bonds" below. In addition, moneys may be transferred to other Accounts from the Series 1994A Principal Account as described under the caption "Parity of Bonds" below.

(ii) *Series 1994A Interest Account.* The Series 1994A Interest Account will receive Series 1994A Revenues relating to the Series 1994A Student Loans and any Counterparty Swap Payments. Amounts on deposit in the Series 1994A Interest Account will be used to pay interest, when due, on the Series 1994A Bonds and any Authority Swap Payments. In the event amounts on deposit in the Series 1994A Interest Account are insufficient to pay interest on the Series 1994A Bonds and any Authority Swap Payments, the Trustee will transfer amounts to the Series 1994A Interest Account as described under the caption "Parity of Bonds" below. In addition, moneys may be transferred to other Accounts from the Series 1994A Interest Account as described under the caption "Parity of Bonds" below.

(iii) *Series 1994A Redemption Account.* The Trustee will deposit to the Series 1994A Redemption Account all amounts required to be transferred to the Series 1994A Redemption Account from the Series 1994A Student Loan Account and the Series 1994A Principal Account. The Trustee will use moneys in the Series 1994A Redemption Account to redeem Series 1994A Bonds on a pro-rata basis. To the extent amounts on deposit in the Series 1994A Redemption Account are not used to redeem Series 1994A Bonds, the Trustee may, upon direction of the Authority, transfer such funds to the Series 1994A Principal Account; provided, however, that such amounts transferred may only be used to pay the principal of the Series 1994A Bonds. In addition, moneys may be transferred to other Accounts from the Series 1994A Redemption Account as described under the caption "Parity of Bonds" below.

(iv) *Series 1994A Debt Service Reserve Account.* The Series 1994A Debt Service Reserve Account will be funded in the amount of the Debt Service Reserve Requirement for the Series 1994A Bonds from proceeds of the Series 1994A Bond as described under the caption "ESTIMATED SOURCES AND USES OF FUNDS" in this Official Statement. In addition, there will also be deposited into the Series 1994A Debt Service Reserve Account all other moneys required to be deposited therein pursuant to the Series 1994A Supplemental Resolution and all other moneys received by the Trustee when



accompanied by directions not inconsistent with the Series 1994A Supplemental Resolution that such moneys are to be paid into the Series 1994A Debt Service Reserve Account. Amounts on deposit in the Series 1994A Debt Service Reserve Account will be used to pay the principal of and interest on the Bonds to the extent amounts on deposit in the Accounts established for the Bonds are insufficient to make such payments as described under the caption "Parity of Bonds" below. Interest and other income received on investments of Series 1994A Debt Service Reserve Account moneys will be retained therein; provided, however, in no event will moneys on deposit in the Series 1994A Debt Service Reserve Account exceed the Debt Service Reserve Requirement with respect to the Series 1994A Bonds. In the event amounts on deposit in the Series 1994A Debt Service Reserve Account exceed the Debt Service Reserve Requirement with respect to the Series 1994A Bonds, such amounts will be transferred to the Series 1994A Interest Account, in such manner as the Authority directs. Anything in the Series 1994A Supplemental Resolution to the contrary notwithstanding, moneys on deposit in the Series 1994A Debt Service Reserve Account will be invested so as not to be in violation of the yield restrictions set forth in the Tax Regulatory Agreement. Investments in the Series 1994A Debt Service Reserve Account will be valued on each Interest Payment Date in the manner set forth in the General Resolution. If any such valuation reveals that the value of such investments is less than the Debt Service Reserve Requirement with respect to the Series 1994A Bonds then Outstanding, the Trustee will immediately notify the Authority of the amount of the difference between the amount derived by such valuation and the Debt Service Reserve Requirement with respect to the Series 1994A Bonds, which difference will be deposited in the Series 1994A Debt Service Reserve Account in the manner set forth below.

Upon the occurrence of an Event of Default under the Resolutions, as set forth in the General Resolution, and the exercise by the Trustee of the remedy specified in the General Resolution, any moneys in the Series 1994A Debt Service Reserve Account will be applied in accordance with the General Resolution. On the final maturity date of the Series 1994A Bonds any moneys in the Series 1994A Debt Service Reserve Account may be used to pay the principal of and interest on the Series 1994A Bonds on such final Maturity date. In the event of the redemption of the Series 1994A Bonds in whole, any moneys in the Series 1994A Debt Service Reserve Account will be transferred to the Series 1994A Redemption Account and applied to the payment of the principal of, premium, if any, and interest on the Series 1994A Bonds.

At such times as moneys are to be transferred out of the Series 1994A Debt Service Reserve Account for deposit into the Series 1994A Principal Account or the Series 1994A Interest Account, the Trustee will use cash or Investment Securities in such order of priority as the Authority directs. If no Authority direction has been received, the Trustee will determine the priority of use of amounts in the Series 1994A Debt Service Reserve Account.

In the event of a deficiency in the Debt Service Reserve Requirement with respect to the Series 1994A Bonds, then the Series 1994A Debt Service Reserve Account will be replenished from Series 1994A Revenues, Series 1994A Recoveries of Principal and other available moneys held under the Trust Estate within twelve (12) months from the date of such deficiency.

*The Student Loan Sinking Fund.* The Authority will cause all Series 1994A Revenues and Counterparty Swap Payments to be deposited promptly with the Trustee in the Student Loan Sinking Fund. There will also be deposited in the Student Loan Sinking Fund any amounts required to be deposited therein pursuant to any Supplemental Resolution and any other amounts available therefor and determined by the Authority to be deposited therein from time to time.

The Series 1994A Revenues and Counterparty Swap Payments credited to the Student Loan Sinking Fund, net of amounts paid to any Guarantor in respect of Claim Adjustments, will be paid out of the Student Loan Sinking Fund at the direction of the Authority as follows and in the following order of priority:

*First:* On each Interest Payment Date, into the Series 1994A Rebate Fund and the Series 1994A Excess Interest Fund, as appropriate, an amount which, when added to the amount to be calculated by the Authority, already within the Series 1994A Rebate Fund and the Series 1994A Excess Interest Fund, as appropriate, will equal the amount required to be on deposit therein.

*Second:* On each Interest Payment Date or other Redemption Date into the Series 1994A Interest Account the amount, if any, which when added to the amount already within the Series 1994A Interest Account will be sufficient to pay the interest due on the Series 1994A Bonds or any Authority Swap Payments due on such date and into the Series 1994A Principal Account and the Series 1994A Redemption Account the amount, if any, which when added to the amount already on deposit in the Series 1994A Principal Account and the Series 1994A Redemption Account will be sufficient to pay the principal and redemption premium, if any, due on any of the Series 1994A Bonds on maturity or upon redemption prior to maturity on such date, as applicable.

*Third:* On the date any current servicing fees with respect to the Series 1994A Student Loans are due and payable, pay to the Servicer (or reimburse the Authority for) such servicing fees.

*Fourth:* On the date any current Program Expenses with respect to the Series 1994A Bonds are due and payable, pay to the Persons due such Program Expenses the amount of the Program Expenses and on the first Business Day occurring in each month after the delivery of the Series 1994A Bonds, to the Authority the amount, if any, necessary to reimburse the Authority for any Program Expenses paid by the Authority, and not previously paid or reimbursed from the Student Loan Sinking Fund.

*Fifth:* On each Interest Payment Date, into the Series 1994A Debt Service Reserve Account amounts necessary to reestablish the Debt Service Reserve Requirement with respect to the Series 1994A Bonds after giving effect to the above transfers.

*Sixth:* On each Interest Payment Date, unless determined otherwise by the Authority (including as provided in "Seventh" below) into the Series 1994A Student Loan Account all remaining Series 1994A Revenues and Counterparty Swap Payments in the Student Loan Sinking Fund after giving effect to the above transfers.

*Seventh:* Unless otherwise provided in any Supplemental Resolution authorizing Bonds, on each Interest Payment Date when the amounts on deposit in the all of the Funds, Accounts and subaccounts for the Series 1992A&B Bonds, the Series 1994A Bonds and any Additional Bonds, as certified to by an Authorized Officer, other than the Rebate Fund, the Series 1994A Rebate Fund or the Series 1994A Excess Interest Fund, exceed 108% of the principal amount and accrued interest of the Outstanding Bonds, then the amounts above such 108% may be transferred to the Authority, at the direction of the Authority, free and clear of the lien or the pledge of the Resolutions.

Notwithstanding the provisions described above, no payments will be required to be made into the Student Loan Sinking Fund for so long as the amount on deposit therein together with amounts on deposit in the Student Loan Fund (exclusive of Eligible Loans therein) will be sufficient to pay all Outstanding

Bonds as evidenced by a Certificate of an Authorized Officer, and any Revenues or Recoveries of Principal thereafter received by the Authority may be applied to any purpose of the Authority in conformity with the Act free and clear of the lien or the pledge of the Resolutions.

**Parity of Bonds** In order to achieve parity between the Series 1992A&B Bonds, the Series 1994A Bonds and any Additional Bonds, if moneys in the principal or interest accounts established for any series of Bonds are insufficient to pay the maturing principal of or interest on such Bonds or any Authority Swap Payments, the Trustee for such series of Bonds will use moneys from the Trust Estate established by the Resolutions (including moneys transferred from the trustees for other series of Bonds) to make such payments as determined by an Authorized Officer of the Authority, or, if no instructions are received from an Authorized Officer of the Authority, in the following order of priority:

(a) Moneys within the reserve account established within the Trust Estate for such series of Bonds;

(b) Moneys transferred to the Trustee from any reserve account established within the Trust Estate for any other series of Bonds issued pursuant to the Resolutions;

(c) Moneys within the interest account established within the Trust Estate for such series of Bonds (which moneys are not being held for the payment of the interest on Bonds due within six months from such proposed transfer date);

(d) Moneys within the principal account established within the Trust Estate for such series of Bonds (which moneys are not being held for the payment of the principal of Bonds due within one year from such proposed transfer date);

(e) Moneys within the redemption account established within the Trust Estate for such series of Bonds (which moneys are not being held for the payment of Bonds for which a notice of redemption has previously been given);

(f) Moneys, but not Eligible Loans, within the student loan account established within the Trust Estate for such series of Bonds;

(g) Moneys transferred to the Trustee from any interest account established within the Trust Estate for any other series of Bonds issued pursuant to the Resolutions (which moneys are not being held for the payment of the interest on Bonds due within six months from such proposed transfer date);

(h) Moneys transferred to the Trustee from any principal account established within the Trust Estate for any other series of Bonds issued pursuant to the Resolutions (which moneys are not being held for the payment of the principal of Bonds due within one year from such proposed transfer date);

(i) Moneys transferred to the Trustee from any redemption account established within the Trust Estate for any other series of Bonds issued pursuant to the Resolutions (which moneys are not being held for the payment of Bonds for which a notice of redemption has previously been given);

(j) Moneys, but not Eligible Loans, transferred to the Trustee from any student loan account established within the Trust Estate for any other series of Bonds issued pursuant to the Resolutions;

(k) Proceeds from the sale of Eligible Loans held within the student loan account established with the Trust Estate for such series of Bonds; and

(l) Proceeds transferred to the Trustee from the sale of Eligible Loans held within any student loan account established with the Trust Estate for any other series of Bonds.

Each trustee for a series of the Bonds issued pursuant to the Resolutions is directed to cooperate in the transfer of moneys within the Trust Estate to provide for the prompt payment of the principal of and interest on all Bonds.

#### COVENANTS OF THE AUTHORITY AND THE TRUSTEE

*Payment of Debt Obligations.* The Authority will duly and punctually pay or cause to be paid, the principal, Redemption Price of every Debt Obligation, including every Bond, and the interest thereon, at the date and places and in the manner stated in the Debt Obligations, according to the true intent and meaning thereof.

*Extension of Payment of Debt Obligations.* The Authority will not directly or indirectly extend or assent to the extension of the maturity of any of the Debt Obligations, including the Bonds, or the time of payment of any claims for interest by the Registered Owner of such Debt Obligations or by any other arrangement and in the event that the maturity of any of the Debt Obligations or the time for payment of any claims for interest will be extended, such Debt Obligations or claims for interest will not be entitled to the benefit of the Resolutions or to any payment out of the Funds or Accounts established pursuant to the Resolutions, including the investments, if any, thereof, or out of any assets or revenues pledged under the Resolutions prior to the benefits accorded to or the payment of the principal of all Debt Obligations the maturity of which has not been extended and of such portion of the accrued interest on the Debt Obligations as will not be represented by such claims for interest. Nothing described under this heading will be deemed to limit the right of the Authority to issue refunding bonds and such issuance will not be deemed to constitute an extension of maturity of the Debt Obligations.

*Power to Issue Debt Obligations and Pledge Revenues, Accounts and Other Property.* The Authority is duly authorized under all applicable laws to authorize and issue the Debt Obligations, including the Bonds, and to adopt the Resolutions and to pledge the assets and revenues in the manner and to the extent provided in the Resolutions. The assets and revenues to be so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon, except for the pledge created by the Resolutions, and all corporate or other action on the part of the Authority to that end has been and will be duly and validly taken. The Debt Obligations and the provisions of the Resolutions are and will be the valid and legally enforceable obligations of the Authority in accordance with their respective terms and the terms of the Resolutions. The Authority will at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Pledged Assets, including all Recoveries of Principal and Revenues and other assets and revenues, including rights therein pledged under the Resolutions, and all the rights of the Registered Owners of the Debt Obligations under the Resolutions against all claims and demands of all persons whomsoever.

*Swap Agreements; Counterparty Swap Payments; Authority Swap Payments.* The Authority authorizes and directs the Trustee to acknowledge and agree to any Swap Agreement entered into by the Authority and a Swap Counterparty under which (a) the Authority may be required to make, from time to time, Authority Swap Payments and (b) the Trustee may receive, from time to time, Counterparty Swap Payments for the account of the Authority. The Authority shall not execute and deliver any Swap Agreement unless at the time of entering into such Swap Agreement (i) the consent of the Bank is obtained, if applicable, and (ii) upon execution and delivery of such Swap Agreement the notional amount of such Swap Agreement, together with the notional amounts of any other Swap Agreements

outstanding at such time, does not exceed the aggregate principal amount of Series 1994A Bonds Outstanding at such time. In connection with the execution of a Swap Agreement, the Trustee, on behalf of the Swap Counterparty, shall waive in the Supplemental Resolution executed in connection with the Swap Agreement any and all rights which the Swap Counterparty may have to receive any amounts realized by the Trustee from foreclosure upon the Trust Estate consisting of any Swap Agreement and any Swap Counterparty Guarantee.

No later than the Business Day immediately preceding each date on which a Counterparty Swap Payment or Authority Swap Payment is due pursuant to the applicable Swap Agreement through and including the termination date of a Swap Agreement, the Authority shall give written notice to the Trustee stating either (a) the amount of any Counterparty Swap Payment due to be received by the Trustee for the account of the Authority no later than such Interest Payment Date or (b) the amount of any Authority Swap Payment to be paid to the Swap Counterparty on such Interest Payment Date. If the Trustee fails to receive such written notification from the Authority by the end of such Business Day, it shall immediately notify the Authority of such fact in writing.

On any Business Day on which a Counterparty Swap Payment is due pursuant to the applicable Swap Agreement in accordance with the written notification received from the Authority, the Trustee shall deposit all moneys received representing such Counterparty Swap Payment in the Student Loan Sinking Fund to be applied in accordance with the provisions described under the caption "FUNDS AND ACCOUNTS-The Student Loan Sinking Fund" in this Appendix A. The Trustee shall notify the Authority on such Business Day, if (a) the amount received from the Swap Counterparty is not equal to the amount specified in the written notification of the Authority, (b) no amount is received from the Swap Counterparty or (c) the amount received is not received in freely transferable funds.

On any date with respect to which an Authority Swap Payment is due in accordance with the written notification received from the Authority or, with respect to a payment in respect of an early termination date, from the Swap Counterparty, the Trustee shall make payment to the Swap Counterparty from moneys in the Series 1994A Interest Account of the Student Loan Sinking Fund of the amount of the Authority Swap Payment specified in such written notification of the Authority or the Swap Counterparty, as the case may be, due on such date by the deposit or wire transfer of freely transferable funds to the credit of the account of the Swap Counterparty specified in such written notification of the Authority or the Swap Counterparty, as the case may be.

Nothing in the Series 1994A Supplemental Resolution prohibits, or will be construed as prohibiting, an Authority Swap Payment or Counterparty Swap Payment from being made on a date other than an Interest Payment Date.

*Further Assurances.* At any and all times the Authority will, so far as it may be authorized by law; pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances as may be necessary or desirable for the better assuring, conveying, granting, pledging, assigning and confirming all and singular the rights, Revenues, Recoveries of Principal and assets pledged or assigned, or intended so to be, or which the Authority may become bound to pledge or assign.

*Tax Covenants.* The Authority covenants that it will not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, if any such action or inaction would adversely affect the exclusion from gross income for federal income tax purposes of the interest on the Bonds under Section 103 of the Code. In furtherance of the foregoing covenants, the Authority covenants to comply with the Tax Regulatory Agreement.

*Student Loan Program.* (A) The Authority will from time to time, with all practical dispatch and in a sound and economical manner consistent in all respects with the provisions of the Resolutions, and sound banking practices and principles, (i) use and apply proceeds of the Debt Obligations, including the Bonds, and moneys in the Student Loan Fund, including the Series 1994A Student Loan Account, to the extent not reasonably or otherwise required for other purposes of the Student Loan Program, to purchase Student Loans pursuant to the Resolutions or to pay other obligations of the Authority required to be paid under the Resolutions, (ii) do all such acts and things as are necessary to receive and collect Revenues (including Special Allowance Payments) and Recoveries of Principal sufficient to pay the expenses of the Student Loan Program and (iii) diligently enforce, and take all steps, actions and proceedings reasonably necessary in the judgement of the Authority to protect its rights with respect to, to maintain any insurance on, and to enforce all terms, covenants and conditions of Student Loans and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund and held by the Trustee as part of the Trust Estate.

(B) For so long as any Debt Obligations are outstanding, the Authority will administer the Student Loan Program in such manner as to ensure that the Student Loan program and the Student Loans will benefit, to the optimum extent, from the Guarantee Program and the federal program of reimbursement for student loans pursuant to the Higher Education Act.

(C) The Authority may at any time sell, assign, transfer, exchange or otherwise dispose of an Eligible Loan and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund and held by the Trustee as part of the Trust Estate provided that the Certificate of an Authorized Officer has been filed with the Trustee stating that the price received for such loans is not less than the aggregate amount of (a) outstanding principal, (b) accrued borrower and other contractually required payments and (c) unamortized premium, if any, paid by the Authority in connection therewith or is for collection or consolidation purposes. If substantially all of the Eligible Loans and other student loans held as part of the Trust Estate are sold, the Authority may, at its option, redeem all or part of the Debt Obligations, including the Series 1994A Bonds, as described under the caption "DESCRIPTION OF THE SERIES 1994A BONDS-Redemption Provisions" in the Official Statement.

*Issuance of Additional Obligations.* (A) The Authority will not create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a superior charge and lien on the revenues and assets pledged under the Resolutions, except for parity obligations permitted by a supplemental resolution, or obligations the proceeds of which are applied to pay the debt obligations in full.

(B) The Authority expressly reserves the right to adopt or enter into one or more supplemental resolutions for its purposes, including the purposes of the Student Loan Program, and reserves the right to issue Additional Debt Obligations for such purposes, which obligations will be secured under the General Resolution and such supplemental resolution.

*Collection and Assignment of Eligible Loans.* The Authority and the Trustee will diligently collect or cause to be collected all principal and interest payments on all the Student Loans and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund, including the Series 1994A Student Loan Account, and held by the Trustee as part of the Trust Estate, and all other sums to which the Authority is entitled pursuant to the provisions of any Loan Purchase Contracts, and all grants, subsidies, donations, Special Allowance Payments and all Guarantee payments which relate to such Student Loans and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund, including the Series 1994A Student Loan Account, and the Authority and the Trustee will make every effort to perfect the Authority's and the Trustee's claims for payment from the Guarantor, as soon as possible, of all payments related to such Student Loans.

The Authority and the Trustee will assign such Student Loans for payment of Guarantee benefits within the required period under applicable law and regulations. The Authority and the Trustee will comply with all United States and State statutes, rules and regulations which apply to the Authority's Student Loan Program and to such Student Loans.

*Administration, Collection and Enforcement of Student Loans.* The Authority will cause all Student Loans and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund, including the Series 1994A Student Loan Account, to be held by the Trustee as part of the Trust Estate and to be administered and collected either by the Authority or by a Servicer selected by the Authority in a competent, diligent and orderly fashion and in accordance with all requirements of the Higher Education Act, the Secretary of Education, each Guarantor, the Resolution, a Guarantee Agreement, the Guarantee Program and the Guarantor's Federal Reimbursement Contracts. The Authority and the Trustee will diligently enforce, or cause to be diligently enforced, all terms, covenants and conditions of all Student Loans and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund, including the Series 1994A Student Loan Account, and held by the Trustee as part of such Trust Estate, and agreements in connection therewith (including the prompt payment of all principal and interest payments and all other amounts due the Authority thereunder) and will promptly and diligently take or cause to be taken, all actions and proceedings reasonably necessary for the enforcement of such terms, covenants and conditions. The Authority and the Trustee will not permit the release of the obligations of any borrower under any Student Loan or any other student loan and will at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Authority, the Trustee and the Registered Owners of the Debt Obligations, including the Bonds, under or with respect to each Student Loan and each agreement in connection therewith. The Authority and the Trustee will not consent or agree to or permit any amendment or modification of any Student Loan and other student loans acquired by the Authority by the expenditure of amounts in the Student Loan Fund, including the Series 1994A Student Loan Account, and held by the Trustee as part of the Trust Estate or agreement in connection therewith which will in any manner materially adversely affect the rights or security of the Registered Owners of the Debt Obligations, including the Bonds. Nothing in the General Resolution will be construed to prevent the Authority from settling a default or curing a delinquency on any Student Loan on such terms as are permitted by law. The provisions of the Resolutions described in this paragraph will be deemed ineffective to the extent that application prevents any action on the part of the Authority or the Trustee to assure compliance with the tax covenants set forth in the Resolutions or prevents the forgiveness and discharge of the remaining indebtedness on any Student Loan having a principal balance not in excess of \$50 if, in the reasonable judgment of the Authority evidenced by a Certificate of an Authorized Officer of the Authority delivered to the Trustee, the cost of collection of the remaining indebtedness of such Student Loan would exceed such remaining indebtedness or if necessary to comply with the tax covenants of the Resolutions.

*Enforcement of Servicing Agreement.* The Authority will cause to be diligently enforced and taken all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Servicing Agreements, including the prompt payment from the Servicer of all principal and interest payments and all other amounts due the Authority. The Authority will, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of the Authority, the Trustee and the Registered Owners of the Debt Obligations, including the Bonds, under or with respect to each Servicing Agreement. The Authority will not consent or agree to or permit any amendment or modification of any Servicing Agreement which will in any manner materially adversely affect the rights or security of the Registered Owners of the Debt Obligations, including the Bonds.

*Limitation on Program Expenses.* The Authority covenants and agrees that the Program Expenses will not, in any Fiscal Year, exceed those that are

reasonable and necessary in light of all circumstances then existing and will not, in any event, be in such amounts as will materially adversely affect the ability of the Authority to pay or perform, as the case may be, all of its obligations under the Resolutions or the security for the Debt Obligations, including the Bonds; provided, however, that nothing in this paragraph will prevent the Authority's paying reasonable and necessary Program Expenses at any time if the failure to pay such Program Expenses would have a greater material adverse effect on the ability of the Authority to pay or perform, as the case may be, all of its obligations under the Resolutions, or the security for the Debt Obligations than payment of such Program Expenses would have. To the extent Program Expenses or Servicing Fees exceed those set forth in the Closing Cash Flow Projections, the Authority will provide Moody's with a Cash Flow Certificate, unless otherwise agreed to by Moody's.

#### PROVISIONS REGARDING SUPPLEMENTAL RESOLUTIONS

*Supplemental Resolutions Effective Upon Filing With the Trustee.* For any one or more of the following purposes and at any time or from time to time, a supplemental resolution of the Authority may be adopted, which, upon the filing with the Trustee of a copy thereof certified by an Authorized Officer, will be fully effective in accordance with its terms upon (i) the initial issuance and delivery of the Debt Obligations authorized in such supplemental resolution or (ii) if no such Debt Obligations are authorized, upon the thirtieth (30th) day subsequent to such filing:

(1) to provide limitations and restrictions in addition to the limitations and restrictions contained in the Resolutions on the authentication and delivery of Debt Obligations or the issuance of other evidence of indebtedness; or

(2) to add to the covenants and agreements of the Authority in the Resolutions other covenants and agreements to be observed by the Authority which are not contrary to or inconsistent with the Resolutions as theretofore in effect (including, but not limited to, any covenants or agreements as may, in Bond Counsel's Opinion, be necessary or desirable to assure compliance with any applicable provisions of the Code); or

(3) to add to the limitations and restrictions in the Resolutions other limitations and restrictions to be observed by the Authority which are not contrary to or inconsistent with the Resolutions as theretofore in effect; or

(4) to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the Resolutions, but only if the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the Resolutions; or

(5) to confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Resolutions, the pledge of the Pledged Assets, including Revenues, Recoveries of Principal or of any other revenues or assets; or

(6) to create additional special trust accounts for the future securing of all Debt Obligations issued pursuant to the General Resolution, as supplemented, if along with such supplemental resolution there is filed a Bond Counsel's Opinion to the effect that the creation and operation of such account will not impair the existing security of the Registered Owners of any Outstanding Debt Obligations; or

(7) to add such provisions to or to amend such provisions of the Resolutions as may, in Bond Counsel's Opinion, be necessary or desirable to assure implementation of the Student Loan Program in conformance with the Higher Education Act if along with such supplemental resolution there is filed a Bond Counsel's Opinion to the effect that the addition or amendment of such provisions will not impair the existing security of the Registered Owners of any Outstanding Debt Obligations or provider of any credit enhancement agreement; or



(8) to issue Debt Obligations or additional debt obligations, (i) secured on a basis of parity of lien with existing Debt Obligations ("Additional Debt Obligations") or (ii) secured by a portfolio of Student Loans and by documents separate and apart from those securing the existing Debt Obligations, if a Bond Counsel's opinion to the effect that the issuance of Additional Debt Obligations will not impair the existing security of the Registered Owners of any Outstanding Debt Obligations and notice to and written confirmation from the Rating Agency that the issuance of said Additional Debt Obligations will not result in a reduction or withdrawal of its rating on such Outstanding Debt Obligations.

*Supplemental Resolutions Effective Upon Consent of Trustee.* (A) For any one or more of the following purposes, and at any time or from time to time, a supplemental resolution may be adopted, which, upon (i) the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority, and (ii) the filing with such Trustee and the Authority of an instrument in writing made by such Trustee consenting thereto, shall be fully effective in accordance with its terms upon the thirtieth (30th) day subsequent to such filing:

(1) to cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision in the Resolutions; or

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

(3) to provide for additional duties of the Trustee in connection with the Student Loans.

(B) Any such supplemental resolution may also contain one or more of the purposes specified under "Supplemental Resolutions Effective Upon Filing with the Trustee", above and in that event, the consent of the Trustee required by the Resolutions as described under this heading shall be applicable only to those provisions of such Supplemental Resolution as shall contain one or more of the purposes set forth in (A) above.

*Supplemental Resolutions Effective Only Upon Consent of Registered Owners of Debt Obligations.* At any time or from time to time, a supplemental resolution may be adopted subject to consent by Registered Owners of Debt Obligations in accordance with and subject to the provisions of the General Resolution. Any such supplemental resolution will become fully effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer and upon compliance with the provisions of the General Resolution.

*General Provisions.* (A) The General Resolution will not be modified or amended in any respect except as provided in and in accordance with and subject to the provisions of the General Resolution. Nothing in the General Resolution contained will affect or limit the right or obligation of the Authority to adopt, make, do, execute, acknowledge or deliver any resolution, act or other instrument pursuant to the provisions of the General Resolution which pertains to further assurances, or the right or obligation of the Authority to execute and deliver to any Fiduciary any instrument which is to be delivered to said Fiduciary pursuant to the General Resolution.

(B) Any supplemental resolution permitted or authorized as described under "Supplemental Resolutions Effective Upon Filing with the Trustee" or "Supplemental Resolutions Effective Upon Consent of Trustee" may be adopted by the Authority without the consent of any of the Registered Owners of the affected Debt Obligations, but will become effective only on the conditions, to the extent and at the times described in said provisions. A copy of every supplemental resolution filed with the applicable Trustee will be accompanied by a Bond Counsel's Opinion stating that such supplemental resolution has been duly and lawfully adopted in accordance with the provisions of the General Resolution, is

authorized or permitted by the General Resolution, and is valid and binding upon the Authority.

(C) The applicable Trustee is authorized to accept the delivery of a certified copy of any supplemental resolution referred to and permitted or authorized by the Resolutions and to make all further agreements and stipulations which may be therein contained, and the Trustee, in taking such action, will be fully protected in relying on an opinion of counsel (which may be a Bond Counsel's Opinion) that such supplemental resolution is authorized or permitted by the provisions of the General Resolution.

(D) No supplemental resolution may change or modify any of the rights or obligations of any Fiduciary without its written assent thereto.

#### PROVISIONS REGARDING AMENDMENTS

*Mailing of Notice of Amendment.* Any provision for the mailing of a notice or other paper to Registered Owners of Debt Obligations, including the Bonds, will be fully complied with if it is mailed postage prepaid to each Registered Owner of Debt Obligations then Outstanding at such Registered Owner's address, if any, appearing on the register therefor.

*Powers of Amendment.* Any modification of or amendment to the General Resolution and of the rights and obligations of the Authority and of the Registered Owners of the Debt Obligations, including the Bonds, under the Resolutions, in any particular, may be made by a supplemental resolution, but only, (i) in the event such supplemental resolution will require the consent of the Registered Owners of Debt Obligations, with the written consent given as provided below of the Registered Owners of at least two-thirds (2/3) in principal amount of the related Debt Obligations Outstanding at the time such consent is given or (ii) in case less than all of the Debt Obligations then Outstanding are affected by the modification or amendment, of the Registered Owners of at least two-thirds (2/3) in principal amount of the Debt Obligations so affected and Outstanding at the time such consent is given. If any such modification or amendment will not take effect so long as any Debt Obligations of any specified maturity remain Outstanding however, the consent of the Registered Owners of such Debt Obligations will not be required and such Debt Obligations will not be deemed to be Outstanding for the purpose of any calculation of Outstanding Debt Obligations for the purposes described under this heading. No such modification or amendment will permit a change in the terms of redemption or maturity of the principal of any Outstanding Debt Obligations or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or in the rate of interest thereon without the consent of the Registered Owner of such Debt Obligation, or will reduce the percentages or otherwise affect the classes of Debt Obligations, the consent of the Registered Owners of which is required to effect any such modification or amendment, or will change or modify any of the rights or obligations of any fiduciary without its written assent thereto. The Trustee may in its sole discretion determine whether or not in accordance with the foregoing powers of amendment Debt Obligations of any particular maturity would be affected by any modification or amendment thereof and any such determination will be binding and conclusive on the Authority and all Registered Owners of Debt Obligations.

*Consent of Registered Owners of Debt Obligations.* (A) A copy of any supplemental resolution making a modification or amendment which requires the consent of the Registered Owners of Debt Obligations, including the Bonds (or brief summary thereof or reference thereto in form approved by the Trustee), together with a request to Registered Owners of Debt Obligations for their consent thereto in form satisfactory to the Trustee, will be mailed by the Authority to the Registered Owner of each Debt Obligations; provided, however, that failure to mail such copy and request will not affect the validity of the supplemental resolution when consented to as described in this provision. Such supplemental resolution will not be effective unless and until (i) there has been filed with the Trustee (a) the written consents of Registered Owners of the

percentages of Outstanding Debt Obligations specified above and (b) a Bond Counsel's Opinion stating that such supplemental resolution has been duly and lawfully adopted by the Authority in accordance with the provisions of the General Resolution, authorized or permitted thereby and is valid and binding upon the Authority, and (ii) published notice has been given as provided in the General Resolution.

(B) At any time after the Registered Owners of the required percentages of Debt Obligations have filed their consents to the supplemental resolution, such consents to be effective only if accompanied by proof of the holding, at the date of such consent, of the Debt Obligations with respect to which such consent is given, the Trustee will make and file with the Authority a written statement that the Registered Owners of such required percentages of Debt Obligations have filed such consents. Such written statements will be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the supplemental resolution (which may be referred to as a supplemental resolution adopted by the Authority on a stated date, a copy of which is on file with the Trustee) has been consented to by the Registered Owners of the required percentages of Debt Obligations and will be effective as provided, will be given to Registered Owners of Debt Obligations by the Authority by mailing such notice

event of default under the Tax Regulatory Agreement. Anything in the General Resolution to the contrary notwithstanding, the Trustee will not, upon an Event of Default described in the preceding paragraph accelerate the Bonds without the consent of 100% of the Registered Owners of the Bonds.

(B) Subject to the provisions of the Resolutions regarding the limited obligations of the Authority, in the enforcement of any rights and remedies under the Resolutions, the Trustee will be entitled to sue for, enforce payment of and receive any and all amounts then or during any default becoming, and at any time remaining, due and unpaid from the Authority for principal or purchase price of or interest on, the Debt Obligations or otherwise, under any provisions of the Resolutions or a supplemental resolution or of the Debt Obligations, with interest on overdue payments at the rate of interest specified in such Debt Obligations or otherwise, together with any and all costs and expenses of collection and of all proceedings thereunder and under such Debt Obligations, without prejudice to any other right and remedy of the Trustee or of the Registered Owners of such Debt Obligations, and to recover and enforce a judgment or decree against the Authority for any portion of such amounts remaining unpaid, with interest, reasonable costs and expenses (including without limitation pre-trial, trial and appellate attorney fees), and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

(C) Upon the occurrence of any Event of Default, and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Registered Owners of such Debt Obligations, under the Resolutions, the Trustee will be entitled, as a matter of right, to receive payment of the related Revenues and Recoveries of Principal directly from the Servicer and to enforce any agreement with the Servicer.

(D) Except upon the occurrence and during the continuance of an Event of Default under the Resolutions, the Authority expressly reserves and retains the privilege to receive and, subject to the terms and provisions of the General Resolution, to keep or dispose of, claim, bring suit upon or otherwise exercise, enforce or realize upon its rights and interests in and to the Student Loans and the proceeds and collections therefrom, and neither the Trustee, nor any Registered Owners of Debt Obligations will in any manner be or be deemed to be an indispensable party to the exercise of any such privilege, claim or suit.

*Priority of Payments After Default.* In the event that upon the occurrence and continuance of any Event of Default the funds held by the Trustee and Paying Agent are insufficient for the payment of principal or Redemption Price and interest then due on the Debt Obligations, such fund (other than funds held for the payment of principal of or interest on particular Debt Obligations which have theretofore become due at maturity or redemption) and any other amounts received or collected by the Trustee, after making provision for the payment of any expenses necessary in the opinion of the Trustee to protect the interest of the Registered Owners of the Debt Obligations, including the Bonds, and for the payment of the charges and expenses and liabilities incurred and advances made by the Trustee or any Paying Agent in the performance of their respective duties under the Resolutions, shall be applied as follows:

(i) Unless the principal of all of the Debt Obligations, including the Bonds, has become or has been declared due and payable;

*FIRST*, to the payment to the persons entitled thereto of interest then due, and, if the amount available shall not be sufficient to pay in full, then to the payment thereof ratably, according to the amounts due, to the persons entitled thereto, without any discrimination or preference;

*SECOND*, to the payment to the persons entitled thereto of the unpaid principal or Redemption Price of any Debt Obligations which shall have become due and, if the amounts available shall not be sufficient to pay in full all the Debt Obligations due, then to the payment thereof ratably,

according to the amounts of principal or Redemption Price Due on such date, to the persons entitled thereto, without any discrimination or preference; and

*THIRD*, to be held for the payment to the persons entitled thereto as the same shall become due, of the principal or Redemption Price of and interest on the Debt Obligations which may thereafter become due and if the amounts available shall not be sufficient to pay in full all the Debt Obligations due on any date, together with such interest, payment shall be made ratably according to the amount of principal and interest due on such date to the persons entitled thereto, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Debt Obligations.

(b) If the principal of all of the Debt Obligations, including the Bonds, has become or has been declared due and payable, to the payment of the principal and interest then due and unpaid upon the Debt Obligations, including the Bonds, without preference of priority of principal over interest or of interest over principal, or of any Debt Obligation over any other Debt Obligation, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or preference except as to any difference in the respective rates of interest specified in the Debt Obligations.

*Termination of Proceedings.* In case any proceedings taken by the Trustee on account of any Event of Default have been discontinued or abandoned for any reason and there has not been an acceleration of the Debt Obligations, including the Bonds, then in every such case the Authority, the Trustee and the Registered Owners of the Debt Obligations will be restored to their former positions and rights under the Resolutions, respectively, and all rights, remedies, powers and duties of the Trustee will continue as though no such proceeding had been taken.

*Direction of Proceedings.* The Registered Owners of a majority in aggregate principal amount of the respective Debt Obligations then Outstanding will have the right, at any time, by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the General Resolution; provided that (a) such direction shall not be otherwise than in accordance with the provisions of law and of the General Resolution; (b) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Registered Owners of any Debt Obligations not taking part in such direction; and (c) the Trustee may initiate proceedings in a court of competent jurisdiction located in the State.

*Limitation on Rights of Registered Owners.* No Registered Owner of any Debt Obligation, including any Bond, will have any right to institute any suit, action, mandamus or other proceeding in equity or at law under the Resolutions, or for the protection or enforcement of any right under the Resolutions unless such Registered Owner shall have given to the Trustee written notice of the Event of Default or breach of duty on account of which such suit, action or proceeding is to be taken, and unless the Registered Owners of not less than twenty-five percent (25%) of principal amount of the Debt Obligations then Outstanding have made written request of the Trustee after the right to exercise such powers or right of action, as the case may be, have occurred, and have afforded the Trustee a reasonable opportunity either to proceed to exercise the powers granted under the General Resolution or granted under the law or to institute such action, suit or proceeding in its name and unless, also, there has been offered to the Trustee reasonable security and indemnity against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee has refused or neglected to comply with such request and offer of indemnity, and such request and offer of indemnity are declared in every such case, at the option of the Trustee, to be conditions precedent to the execution of the powers under the Resolutions or for any other remedy under the General Resolution or by law.

*Notice of Event of Default.* The Trustee shall give to the Registered Owners of Debt Obligation and each of the Trustee's agents notice of each Event of Default under the Resolutions known to the Trustee within thirty (30) days after actual knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice; provided, that, except in the case of default in the payment of the principal of, Redemption Price, purchase price of, or interest on any of the Debt Obligations, or in the making of any payment required to be made into the Accounts within the Student Loan Sinking Fund, the Trustee will be protected in withholding such notice if and so long as the board of directors, the executive committee, or a trust committee of directors or responsible officers of the Trustee in good faith determines that the withholding of such notice is in the interest of the Registered Owners of the Debt Obligations. Each such notice of Event of Default will be given by the Trustee by mailing written notice thereof: (i) to all Registered Owners of Debt Obligations, as the names and addresses of such Registered Owners appear upon the books for registration and transfer of Debt Obligations as kept by the Trustee, (ii) to such other persons as is required by law.

#### **RESIGNATION AND REMOVAL OF THE TRUSTEE**

*Resignation of Trustee.* The Trustee may at any time resign and be discharged of the duties and obligations created by the Resolutions by giving not less than ninety (90) days' written notice to the Authority, the provider of any credit enhancement agreement then in effect with respect to the Debt Obligations and to Registered Owners in the manner specified in the Resolutions specifying the date when such resignation will take effect upon any day specified in such notice unless (i) previously a successor has been appointed, as provided in the Resolutions, in which event such resignation shall take effect immediately on the acceptance of such successor or (ii) no such successor has been appointed in which event such resignation will take effect immediately upon, but not until, the acceptance of such successor.

*Removal of Trustee.* The Authority may remove the Trustee at any time, except during the existence of an Event of Default, for material breach of the Resolutions or Trust Agreement or willful misconduct by filing with the Trustee an instrument signed by an Authorized Officer. No such removal will take effect until the appointment of and acceptance of such appointment by a successor Trustee in accordance with the Resolutions.

#### **APPOINTMENT OF SUCCESSOR TRUSTEE**

In case at any time the Trustee resigns or is removed or becomes incapable of acting, or is adjudged as bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, is appointed, or if any public officer takes charge or control of the Trustee, or of its property or affairs, the Authority covenants and agrees that it will thereupon appoint a successor Trustee.

Any Trustee appointed under the provisions of the Resolutions in succession to the Trustee must be a corporation or a bank holding company, organized under the laws of the United States or of any state, which is authorized to exercise trust powers and is subject to supervision or examination by federal or state authorities, having a capital, surplus and undivided profits aggregating at least \$25,000,000 if there be such a trust company or bank willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the Resolutions and must be an eligible lender for purposes of the Higher Education Act.

#### **DEFEASANCE; MISCELLANEOUS PROVISIONS**

(A) Subject to the provisions of the General Resolution, if the Authority pays or causes to be paid to the Registered Owners of particular parity Debt Obligations the principal and interest, including deferred interest whether or

not then due, to become due thereon, at the times and in the manner stipulated in the Resolutions, and all obligations of the Authority thereunder with respect to the fees and expenses of or reimbursement of any Fiduciary have been paid or otherwise performed or the payment or performance thereof has otherwise been provided for to the satisfaction of the Trustee, then the pledge of the related Pledged Assets, including any Revenues, Recoveries of Principal, and other moneys, securities, funds and property constituting a part of the Trust Estate and all other rights granted by the Resolutions will be discharged and satisfied. In such event, the Trustee will, upon the request of the Authority, execute and deliver to the Authority all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries will pay over or deliver to the Authority all moneys or securities held by them pursuant to the Resolutions which are not required for the payment of Debt Obligations not theretofore surrendered for such payment. If the Authority will pay or cause to be paid, or there is otherwise paid to the Registered Owners of all Outstanding Debt Obligations the principal and interest due or to become due thereon, at the times and in the manner stipulated therein and in the Resolutions, such Debt Obligations will cease to be entitled to any lien, benefit or security thereunder and all covenants, agreements and obligations of the Authority to the Registered Owners of such Debt Obligations will thereupon cease, terminate and become void and be discharged and satisfied.

(B) Debt Obligations for the payment of which moneys have been set aside and are held in trust by the Fiduciaries (through deposit by the Authority of funds for such payment or otherwise) will, at the maturity thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) above. All Debt Obligations will, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in subsection (A) above if (i) in case any of the Debt Obligations are to be redeemed on any date prior to their maturity, the Authority has given to the applicable Trustee, in form satisfactory to it, irrevocable instructions to give notice as provided in the Resolutions, (ii) there has been deposited with the Trustee either moneys in an amount which is sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, are sufficient to pay when due the principal or Redemption Price, if any, of and interest due and to become due on the said Debt Obligations on and prior to the Redemption Date or maturity date thereof, as the case may be, and (iii) in the event the said Debt Obligations are not by their terms subject to redemption within the next succeeding sixty (60) days, the Authority has given the Trustee, in form satisfactory to it, irrevocable instructions to give notice to the Registered Owners of such said Debt Obligations that the deposit required by (ii) above has been made with the Trustee and that the said Debt Obligations are deemed to have been paid in accordance with the General Resolution and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on the said Debt Obligations.

(C) If, through the deposit of moneys by the Authority or otherwise, the Fiduciaries holds, pursuant to the Resolutions, an amount sufficient to pay the principal and interest to maturity on all Outstanding parity Debt Obligations, or in the case of Debt Obligations in respect of which the Authority has taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of the Authority all moneys held by any applicable Fiduciary will be paid over to the Trustee and, together with other moneys held by it under the Resolutions, will be held by the Trustee for the payment of such Outstanding parity Debt Obligations.

*No Recourse Under Resolution or on Bonds.* Notwithstanding anything to the contrary contained in the Resolutions, or in any other instrument or document executed by or on behalf of the Authority in connection with the issuance of the Debt Obligations, including the Bonds, no stipulation, covenant, agreement or obligation contained in the Resolutions or in such other instrument or document

will be deemed or construed to be a stipulation, covenant, agreement or obligation of any present or future trustee, officer, employee or agent of the Authority in any such person's individual capacity. No such person, in their individual capacity will be liable personally for any breach or non-observance of, or for any failure to perform, fulfill or comply with, any such stipulations, covenants, agreements or obligations, nor will any recourse be had for the payment of any monies due or for any claim based thereon or on any such stipulation, covenant, agreement or obligation, against any such person in their individual capacity, either directly or through the Authority, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise. Reference is made to the Trust Indenture, a copy of which has been recorded in the office of the Secretary of State at the State Capitol Building in Oklahoma City, Oklahoma.

*Limited Obligation of Authority and State.* Debt Obligations, including the Bonds, issued under the Resolutions and the interest thereon, will not be an indebtedness or obligation of the State, or of any political subdivision thereof (other than the Authority), or of the trustees of the Authority, and neither the faith and credit nor the taxing power of the State (or any political subdivision thereof) are obligated to pay the Debt Obligations, including the Bonds, or the interest thereon. The Debt Obligations, including the Bonds, are obligations of the Authority payable solely from the Pledged Assets and other property or income pledged thereto as further specified in the Resolutions. The Authority has no taxing power.



**Oklahoma Student Loan Authority  
Student Loan Revenue Bonds, Series 1994A**

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

This Summary of the guaranteed Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the Higher Education Act and the regulations promulgated thereunder.

**Introduction**

The following descriptions of the Federal Family Education Loan Program (the "FFELP"), formerly known as the Guaranteed Student Loan Program, including the Stafford Student Loan Program, the Supplemental Loans for Students Program, Parent Loans for Undergraduate Students (PLUS) Program, and Consolidation Loan Program as authorized under Title IV, part B of the Higher Education Act of 1965, as amended (the "Higher Education Act") are qualified in their entirety by reference to the Higher Education Act. The Higher Education Act provides for a program of (a) direct federal insurance of student loans and (b) reinsurance of student loans guaranteed or insured by a state agency or private nonprofit corporation. Several types of loans are currently authorized as "Family Education Loans" pursuant to this program. These include: (a) loans to students with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment ("Subsidized Stafford Loans"); (b) loans to students with respect to which the federal government does not make such interest payments ("Unsubsidized Stafford Loans," and together with Subsidized Stafford Loans, "Stafford Loans"); (c) supplemental loans to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students ("Supplemental Loans to Students" or "SLS Loans"); (d) supplemental loans to parents of dependent students ("PLUS Loans"); and (e) loans to fund payment and consolidation of certain of the borrower's obligations ("Consolidation Loans").

Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized several times, including by legislation enacted in 1986, 1990, 1992 and 1993. There can be no assurance that the Higher Education Act or other relevant law or regulations promulgated thereunder will not be changed in a manner that will adversely impact the programs described below. In particular, the enacted legislation and other measures described under "Legislative and Administrative Matters" below, or future measures to reduce the federal budget deficit, may adversely affect these programs.

**Legislative and Administrative Matters**

**General.** Both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendments in recent years and there can be no assurance that further amendments will not materially change the provisions described herein or the effect thereof. The Higher Education Act was amended by enactment of the Higher Education Amendments of 1986 (the "1986 Amendments"), the general provisions of which took effect on October 17, 1986 and which extended the principal provisions of the FFELP to September 30, 1992 (or in the case of borrowers who have received loans prior to that date, September 30, 1997). The Omnibus Budget Reconciliation Act of 1990 (P.L. 101-508) (the "1990 Reconciliation Act") also contained major revisions to the Higher Education Act and the Congressional Budget Act affecting the FFELP. These changes include the Credit Reform Act of 1990, revisions to the budget process, and new restrictions on the eligibility of education institutions in the FFELP. On July 23, 1992, the President signed into law P.L. 102-325 (the "Reauthorization Bill") that reauthorized the FFELP through October 1, 1998 and made a number of revisions thereto. Most recently, on August 10, 1993, the President signed into law the Student Loan Reform Act of 1993 which further amended the Higher

Education Act (the "1993 Amendments") by revising a number of provisions to the FFELP and enacted a Federal Direct Student Loan Program and on December 20, 1993, the President signed into law the Higher Education Technical Amendments Act of 1993 (the "1993 Technical Amendments") which made further changes to the Higher Education Act.

**Credit Reform.** The 1990 Reconciliation Act included the Credit Reform Act of 1990. Under this legislation, beginning in fiscal year 1992, the budgeted cost of the FFELP included the present value of the long-term cost to the government of loans reinsured during the fiscal year (excluding administrative costs and certain incidental costs), regardless of how far into the future the costs will be incurred. The costs resulting from loan reinsurance commitments made prior to fiscal year 1992 will also be reflected in future budgets based on the years in which they are paid.

**Enforcement of Spending Limits.** To ensure that revenue levels and spending limits established in the 1990 Reconciliation Act are realized during the five-year period covered by the Higher Education Act, the legislation creates a "pay-as-you-go" process that includes budget sequestration. The legislation divides the budget into three parts for this purpose—receipts (e.g., tax revenues), discretionary spending and entitlements. The FFELP is considered an entitlement for this purpose.

If new entitlement spending would cause the entitlement spending limits of the 1990 Reconciliation Act to be breached in a fiscal year, the President is required to order "across-the-board" cuts in entitlements to ensure that the spending limits are met. Thus, new spending in Medicare, for example, could cause a sequester affecting the FFELP.

A sequester is ordered within 15 days of the end of the session of Congress that is underway at the beginning of the fiscal year. If legislation enacted in the next session of Congress would cause the spending limits to be exceeded, a sequester is ordered 15 days after enactment of that legislation, for legislation enacted before July 1 of the fiscal year. For legislation enacted after July 1, the following year's spending limits are reduced by the amount of the excess spending created by the new legislation in the current year.

New entitlement spending caused by economic conditions (e.g., higher than projected interest rates) or increased utilization rates do not violate the spending limits established by the Higher Education Act. Only legislative actions creating new spending are covered. However, in fiscal years 1994 and 1995, the President is authorized to order a sequester if certain deficit targets are not met, even if no new entitlement legislation has been enacted.

A special sequestration rule applicable to the FFELP under prior law is maintained in the budget process. See Section 256(c) of the Balanced Budget and Deficit Reduction Act of 1985, 2 U.S.C. § 906(c) (the "1985 Budget Act"). Under Section 252B of the 1985 Budget Act, as amended, if specified reductions in the National Wood Act Program, the Special Milk Program and the Vocational Rehabilitation Program fail to achieve the required savings, the special sequestration rule for the FFELP applies. Under this special rule, any Guaranteed Student Loan made in the fiscal year for which sequestration is in effect is subject to a reduced special allowance rate based on the 91-day Treasury bill rate plus 3% for the first four calendar years that the loan is outstanding and, for a Stafford Loan, the borrower's loan origination fee is increased by .5%.

Thus, no assurance can be given that sequestration will not have an adverse effect on the FFELP in future years.

**Eligibility Requirements for Educational Institutions.** The 1990 Reconciliation Act made major changes in the provisions granting eligibility to educational institutions (each a "Lender") to participate in the FFELP. The 1990 Reconciliation Act eliminated eligibility for any institution with a default rate

over 35%, with the exception of historically black colleges, certain tribally controlled community colleges and other schools that can demonstrate "exceptional mitigating circumstances" to the satisfaction of the Secretary. In addition, the 1990 Reconciliation Act extended a requirement originally enacted in the 1989 Budget Act excluding institutions with a default rate over 30% from the SLS program. Both of these changes are expected to eliminate from the FFELP many new loans with a high probability of default. In addition, the Reauthorization Bill lowered the default rate trigger for disqualifying schools to 25% beginning in fiscal year 1994, further reducing the risk of default in the program.

**Reauthorization of the Higher Education Act; Financial Status of Guarantee Agencies.** The Reauthorization Bill amended and reauthorized the Higher Education Act effective through October 1, 1998. Included in the Reauthorization Bill is a provision that would require each Guarantee Agency to maintain a current minimum reserve level of at least .5% of the total attributable amount of all outstanding loans guaranteed by the Guarantee Agency for the federal fiscal year that begins in 1993. For purposes of the .5% determination, the total attributable amount of all outstanding loans guaranteed by the Guarantee Agency will not include amounts of outstanding loans transferred to the Guarantee Agency by the Secretary due to the insolvency of another Guarantee Agency. Under the Reauthorization Bill, the .5% minimum will increase to .7% and .9% for federal fiscal years beginning in 1994 and 1995, respectively, and 1.1% for federal fiscal years beginning in fiscal year 1996 and thereafter. Annually, the Secretary will collect information from each Guarantee Agency to determine the Guarantee Agency's solvency. If (i) the Guarantee Agency's current reserve level falls below the required minimum for any two consecutive years, (ii) the Guarantee Agency's federal reimbursement payments are reduced to 80% or (iii) the Secretary determines that the administrative or financial condition of a Guarantee Agency jeopardizes such Guarantee Agency's ability to perform its responsibilities, the Secretary may require the Guarantee Agency to submit and implement a management plan acceptable to the Secretary. If the Guarantee Agency fails to submit a plan acceptable to the Secretary, has failed to improve substantially its financial condition or is in danger of financial collapse, the Secretary may terminate the Guarantee Agency's reinsurance contract with the Secretary and, among other things, permit the transfer of guarantees to another Guarantee Agency or to the Secretary for the payment by the Secretary of any claims with respect thereto. If the Secretary has determined that a Guarantee Agency is unable to meet its insurance obligations, the holder of loans insured by the Guarantee Agency may submit insurance claims directly to the Secretary and the Secretary will pay to the holder the full insurance obligation of the Guarantee Agency, in accordance with insurance requirements no more stringent than those of the Guarantee Agency. Such arrangements will continue until the Secretary is satisfied that the insurance obligations have been transferred to another Guarantee Agency who can meet those obligations or a successor will assume the outstanding insurance obligations. There can be no assurance, however, that the Secretary will ever make such a determination or will do so in a timely manner. The Reauthorization Bill also provides that the Secretary is authorized, on terms and conditions satisfactory to the Secretary, to make advances to a Guarantee Agency in order to assist the Guarantee Agency in meeting its immediate cash needs and to ensure uninterrupted payment of default claims by lenders.

**Federal Direct Student Loan Program.** Commencing in academic year 1994/1995, the 1993 Amendments initiated a Federal Direct Student Loan Program ("FDSLP"). In order to ensure expeditious but orderly transition from the FFELP to the FDSLP, the Secretary will endeavor to enter into an adequate number of FDSLP participation agreements with institutions of higher education such that new federal student loan volume under the FDSLP and FFELP programs combined (excluding Consolidation Loans) would be comprised of FDSLP loans to the extent of 5% in academic year 1994/1995, to 40% in 1995/1996, 50% in 1996/1997, 50% in 1997/1998 and 60% for the academic year beginning in 1998. The Secretary may exceed the goals established for academic years commencing after 1995/1996 if the Secretary determines that a higher percentage is warranted by the number of institutions of higher education that desire to participate in the FDSLP and meet

the eligibility requirements. Generally, student loans made under the FDSLPL will have parallel terms and conditions, benefits and amounts as the Stafford Loans, Plus Loans and Unsubsidized Stafford Loans described below. The FDSLPL will provide a variety of flexible repayment plans, including executed, graduated and income contingent plans, forbearance of payments during periods of national service and consolidation of FDSLPL loans with FFELP loans.

**Risk Sharing Provisions.** Under the 1993 Amendments, effective for FFELP loans disbursed after October 1, 1993, (i) the federal reinsurance paid to Guarantee Agencies will be reduced from 100%, 90% and 80% for claims rates of 0%-5%, 5%-9% and greater than 9%, respectively, to 98%, 88% and 78%, respectively and (ii) guaranty payments from Guarantee Agencies will be reduced from 100% to 98%. Effective October 1, 1994, states in which there are institutions with a cohort default rate exceeding 20% will be required to pay to the Secretary a fee equal to 12.5% of all new loan volume attributable to all institutions in that state for fiscal year 1995 (increased to 20% for fiscal year 1996 and 50% for fiscal years 1997 and thereafter) multiplied by the quotient resulting from dividing the amount by which the cohort default rates for all of the state's institutions exceeds 20% by the total amount of loan volume attributable to current and former students of institutions in the state entering into repayment for the period used to calculate the cohort default rate.

**Guarantee Agency and Lender Provisions.** In addition to the changes discussed under "Risk Sharing Provisions" above, the 1993 Amendments include certain other amendments affecting Guarantee Agencies and Lenders. Most notably, the Secretary was granted authority to recover and restrict the use of reserve funds of any Guarantee Agency as well as any assets purchased with such reserve funds if the Secretary determines that it is in the best interests of the FFELP or an orderly transition to complete reliance on the FDSLPL to do so. These and other amendments could adversely affect the ability of a Guarantee Agency to remain solvent. Such other amendments include reducing the Guarantee Agency default collection retention rate from 30% to 27%, reducing the maximum insurance premium charged by a Guarantee Agency from 3% to 1% and authorizing the Secretary to terminate a Guarantee Agency's reinsurance agreement if the Secretary determines such action is necessary to protect federal fiscal interests or ensure an orderly transition to full implementation of the FDSLPL. The Administrative Cost Allowance ("ACA") was eliminated; however legislative history suggests that Congress intended that Guarantee Agencies will continue to receive a 1% ACA and the Secretary has confirmed that he will pay a 1% ACA to Guarantee Agencies in fiscal year 1994. For Stafford Loans disbursed on or after July 1, 1995, the Lender yield on student loans during in-school, grace and deferment periods is reduced from the 91-day Treasury bill rate plus 3.1% to 91-day Treasury bill rate plus 2.5% (not to exceed 8.25%). Lenders will also be required to pay a 1.05% annual fee to the Secretary on the principal plus accrued but unpaid interest of all Consolidation Loans made on or after October 1, 1993 and such loans bear interest at the 91-day Treasury bill rate plus 3.1% with no floor applicable. Also effective for student loans first disbursed after October 1, 1993, Lenders will be assessed an up-front, user/origination fee equal to .5% of the principal amount of the student loan.

**Servicer Provisions and Third-Party Servicer Regulations.** The Reauthorization Bill authorized the Secretary to regulate servicers, including the regulation of their financial responsibility. On April 29, 1994, final regulations were published in the *Federal Register* by the Secretary amending the Student Assistance General Provisions and FFELP regulations. These regulations, among other things, establish requirements governing contracts between institutions and third-party servicers, strengthen sanctions against institutions for violations of the program requirements of the Higher Education Act, establish similar sanctions for third-party servicers and establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a Guaranty Agency's or Lender's participation in the FFELP.

## Eligibility Requirements for Stafford Loans

The Higher Education Act provides for federal (i) insurance or reinsurance of eligible Stafford Loans, (ii) interest subsidy payments ("Interest Subsidy Payments") to eligible lenders with respect to certain eligible Stafford Loans, and (iii) special allowance payments ("Special Allowance Payments") representing an additional subsidy paid by the Secretary to such holders of eligible Guaranteed Student Loans.

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

Subject to these limits, Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing and determined and 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 Stafford Loan program funding have been the subject of frequent and extensive amendments in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Stafford Loan funding to borrowers or the availability of Stafford Loans for secondary market acquisition. As used in this summary, a new borrower is an individual who has no outstanding balance due upon prior loans under the FFELP.

**Qualified Student.** Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (iii) has agreed to notify promptly the holder of the loan of any address change, (iv) meets the applicable "needs" requirements and (v) if such person is an undergraduate enrolled in an institution participating in the Pell Grant Program, then such person's eligibility or ineligibility for the Pell Grant Program must have been determined. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. Each loan is to be evidenced by an unsecured note.

**Principal and Interest.** Stafford Loans may bear interest at a rate not in excess of 7% per annum if made to a borrower to cover costs of instruction for any period beginning prior to January 1, 1981 or, subsequent to such date, if made to a borrower who, upon entering into a note for a loan, has outstanding student loans under the FFELP for which the interest rate does not exceed 7%. Stafford Loans made for periods of instruction between January 1, 1981 and September 13, 1983 bear interest at a rate of 9% per annum, and for periods of instruction beginning on or after September 13, 1983, the rate is 8% per annum. Further, loans to first time borrowers for periods of enrollment beginning on or after July 1, 1988 bear interest at rates of 8% per annum from disbursement through four years after repayment commences and 10% per annum thereafter, subject to a provision requiring annual discharge of principal or rebate to the borrower to the extent that the sum of quarterly calculations of the amount by which interest calculated upon the latter rate (10%) exceeds the amount which would result from application of a rate equivalent to the 91-day Treasury bill rate plus 3.25%. However, under the 1993 Technical Amendments, lenders must convert all loans subject to this provision to a variable rate equal to the 91-day Treasury bill rate plus 3.25% or, in the case of a loan made to a borrower

with outstanding student loans under the FFELP after October 1, 1993, the 91-day Treasury bill rate plus 3.1%, such conversion to take place before January 1, 1995. The converted loans will not thereafter be subject to the rebate requirements.

Under the Reauthorization Bill, Stafford Loans to new borrowers made on or after October 1, 1992 bear interest at a variable rate adjusted annually based on the most recent bond equivalent rate of the 91-day Treasury bill rate plus 3.1%. The 1993 Amendments made certain changes to the interest rates on student loans to be originated in the future. The interest rates on Subsidized Stafford Loans made to new borrowers as of July 1, 1994 will be the 91-day T-bill rate plus 3.1%, not to exceed 8.25%. The interest rates on these programs for loans made on or after July 1, 1995 prior to repayment and during any grace period will be the 91-day T-bill plus 2.5%, not to exceed 8.25%. The interest rate on Subsidized Stafford Loans and Unsubsidized Stafford Loans made on or after July 1, 1998 will be the bond equivalent rate of the security with a comparable maturity as established by the Secretary plus 1.0%, not to exceed 8.25%. In addition, new loans made to borrowers with outstanding Guaranteed Student Loans effectively bear interest to the lenders at the same rate, subject to conversion to a variable rate prior to January 1, 1995 as described above.

**Disbursement Requirements.** The Higher Education Act now requires that all Stafford Loans, PLUS and SLS 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 must be delivered to the student no earlier than thirty days after the enrollment period begins. Under the Reauthorization Bill, the annual Stafford limit for first year students is \$2,625 (except that lower limits apply to certain short-term courses of study) but increases to \$3,500 for second year students, \$5,500 for third and fourth year students, and \$8,500 for graduate and professional students. The aggregate limit is at \$23,000 for undergraduates and \$65,500 for graduate and professional students. Under the prior law, since January 1, 1987, undergraduates could borrow under the Stafford program up to \$2,625 annually through the completion of the second year of instruction and \$4,000 annually thereafter. Undergraduate aggregate Stafford loan limits were set at \$17,250. Graduate or professional students could borrow up to \$7,500 annually, subject to an aggregate limit of \$54,750, inclusive of loans for undergraduate study.

**Repayment.** Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable Grace Period, as described below. Such Grace Periods may be waived by borrowers. In general, each such loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of \$600 including principal and interest, unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total of combined payments for such a couple may not be less than \$600 per year. No penalties may be charged for early repayment.

**Grace Period, Deferment Periods, Forbearance.** Repayment of principal of an insured student loan must generally commence following a period of (i) not less than nine months or more than 12 months (with respect to loans for which the applicable interest rate is 7% per annum) and (ii) not more than six months (with respect to loans for which the applicable interest rate is in excess of 7% per annum and for loans to first time borrowers on or after July 1, 1988) after the student borrower ceases to pursue at least a half-time course of study (a "Grace Period"). However, during certain other periods and subject to certain conditions, no principal repayments need be made, including periods when the student has returned to an eligible educational institution on a full-time basis or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily totally disabled or during which the borrower is unable to secure employment by reason of the care required by a dependent who is disabled (the

"Deferment Periods"). The Lender may also allow periods of forbearance during which the borrower may defer principal payments because of temporary financial hardship. The Reauthorization Bill simplified the deferment categories for new loans and expanded the opportunities for students to obtain forbearance from Lenders due to temporary financial hardship.

#### **Interest Subsidy Payments**

Interest Subsidy Payments are interest payments paid during certain periods by the Secretary with respect to Stafford Loans which meet certain requirements. With respect to loans for which the eligible institution has completed its portion of the loan application after September 30, 1981, Interest Subsidy Payments are available only if certain income and need criteria are met by the borrower. Interest Subsidy Payments will be paid (i) during a period in which the borrower is enrolled at least half-time in an eligible institution, (ii) during a six-month grace period pending commencement of repayment of the loans, (iii) during certain deferment periods, and (iv) in the case of loans initially disbursed prior to October 1, 1981, during a six-month grace period following any authorized deferment period before repayment is required to resume.

The Secretary makes Interest Subsidy Payments quarterly on behalf of the borrower to the holder of the loan in an amount equal to the interest accruing on the unpaid principal amount of the loan during the applicable period. The Higher Education Act provides that the holder of a loan meeting the specified criteria has a contractual right, as against the United States, to receive Interest Subsidy Payments from the Secretary. Receipt of Interest Subsidy Payments is conditioned on the eligibility of the loan for insurance or reinsurance benefits. Such eligibility may be lost, if the requirements of the federal government and the guarantor relating to the servicing and collection of the loans are not met. If Interest Subsidy Payments have not been paid within 30 days after the Secretary receives an accurate, timely and complete request therefor, the Secretary must pay interest on the amounts due beginning on the 31st day at the Special Allowance Payment rate plus the rate of interest applicable to the affected loans.

#### **Special Allowance Payments**

The Higher Education Act provides, subject to certain conditions, for Special Allowance Payments to be made quarterly by the Secretary to owners of qualifying Stafford Loans, PLUS Loans and SLS Loans.

The rate of Special Allowance Payments for a particular loan is dependent on a number of factors including when the loan was disbursed and for what period of enrollment the loan covers costs. Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be between 3.1 and 3.5 percentage points above the average of bond equivalent rates of 91-day Treasury bills auctioned for that quarter. Under the Reauthorization Bill, the Special Allowance Payment will be calculated based on the bond equivalent rate of the 91-day Treasury bill plus 3.1% for loans made on or after October 1, 1992, except that, under the 1993 Amendments, Stafford Loans made on or after July 1, 1995 qualify for Special Allowance Payments based on the 91-day Treasury bill rate plus 2.5% while the borrower is in in-school, grace or deferment status. In the case of certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations originally issued prior to October 1, 1993, the Special Allowance Payments are reduced by approximately one-half, but not less than certain minimums provided in the Higher Education Act. These minimum Special Allowance Payment rates effectively insure an overall minimum return of 9.5% on such Stafford Loans. However, loans acquired with the proceeds of tax-exempt obligations originally issued after September 30, 1993, will no longer be assured of a minimum Special Allowance Payment. In addition, the formula will be the same as for loans acquired with taxable proceeds (i.e., the full, rather than half, Special Allowance Payment rate). The formula for Special Allowance Payment rates for PLUS Loans and SLS Loans is similar to that for the Subsidized Stafford Loans except that no such payments are made until the

rate on the PLUS Loan or SLS Loan exceeds a certain rate per annum according to the type of loan and based on when the loan was first disbursed. In order to be eligible for Special Allowance Payments, the rate on PLUS Loans first disbursed on or after October 1, 1992 must exceed 10% and for SLS Loans first disbursed on or after October 1, 1992 the rate must exceed 11%. The rate of Special Allowance Payments for Subsidized Stafford Loans first disbursed on or after October 1, 1992 is based on the bond equivalent 91-day T-bill Rate plus 3.10%. The Special Allowance Payment rates applicable to Consolidation Loans are determined in the same manner as Subsidized Stafford Loans made on or after October 1, 1980. The rate of Special Allowance Payments is subject to reduction by the amount of certain origination fees charged to borrowers and may be reduced as a result of certain federal budget deficit reduction measures.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive Special Allowance Payments has a contractual right against the United States, during the life of the loan, to receive those Special Allowance Payments. Receipt of Special Allowance Payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of the federal or guarantor regulations specifying servicing and collection of the loan in the event of delinquency. The Higher Education Act also provides that if Special Allowance Payments have not been made within 30 days after the Secretary receives an accurate, timely and complete request therefor, the Secretary must pay interest on the amounts due beginning on the 31st day at the Special Allowance Payment rate plus the rate of interest applicable to the affected loans.

#### **Unsubsidized Stafford Loan Program**

Under the Reauthorization Bill, a new type of Stafford Loan was created for students who do not qualify for the full subsidized Stafford Loan after application of the need analysis methodology. Such students are entitled to borrow the difference between the Stafford Loan maximum and their Stafford eligibility through the new program. The new unsubsidized Stafford Loan is substantially identical to other Stafford Loans, except that the interest accruing on the loan while the student is in school or in grace or deferment is capitalized or paid by the student, rather than paid by the Secretary through interest subsidies.

#### **PLUS and SLS Loans**

Under the 1980 amendments to the Higher Education Act, Congress established a program to provide loans to parents of dependent undergraduate students. Loans under this program are designated "PLUS Loans." The 1981 amendments to the Higher Education Act revised and expanded the initial program to also provide loans to graduate and professional students and independent undergraduate students. Loans under this program are designated "SLS Loans." The basic provisions applicable to PLUS and SLS Loans are similar to those of Stafford Loans with respect to the involvement of guaranty agencies and the Secretary in providing federal insurance on the loans. However, PLUS and SLS Loans differ significantly from Stafford Loans, particularly because federal Interest Subsidy Payments are not available under the PLUS and SLS programs and Special Allowance Payments are more restricted.

PLUS Loans and SLS Loans disbursed prior to July 1, 1993 and after October 17, 1986 are limited to \$4,000 per academic year (except for SLS Loans for attendance at certain specified short-term courses of study in which case the limit is lower) with a maximum aggregate amount of \$20,000. PLUS and SLS Loans are also limited, generally, to the cost of attendance minus other financial aid for which the student is eligible. A determination of a student's eligibility for the Pell Grant and the Stafford Loan Program is a condition of the student's receipt of a SLS Loan. Under the Reauthorization Bill, there are no annual or aggregate limits applicable to PLUS loans, except that parents continue to be prohibited from borrowing amounts in excess of the student's cost of attendance. SLS Loan limits remain constant for first year and second year students, but



increase to \$5,000 for third and fourth year students, and to \$10,000 for graduate and professional students. Aggregate limits increase to \$23,000 for undergraduate students and \$73,000 for graduate and professional students.

The applicable interest rate on PLUS Loans depends upon the date of issuance of the loan and the period of enrollment for which the loan is to apply. For PLUS Loans issued on or after October 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest is either 12% or 14% per annum. A variable interest rate applies to PLUS and SLS Loans made and disbursed on or after July 1, 1987 or made to refinance PLUS Loans pursuant to the Higher Education Act. This rate is determined on the basis of any 12-month period beginning on July 1 and ending on the following June 30, such that the rate will be the bond equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to the June 1 preceding the applicable 12-month period, plus 3.25%, with a maximum rate of 12% per annum. Special Allowance Payments are available on variable rate PLUS and SLS Loans only if the rate determined by the formula above exceeds 12%. Under the Reauthorization Bill, PLUS loans carry a variable interest rate based on the bond equivalent rate of the 52-week Treasury bill rate plus 3.1%, capped at 10%, for loans first disbursed on or after October 1, 1992, which cap has been further reduced by the 1993 Amendments to 9% for such loans disbursed on or after July 1, 1994. For PLUS Loans disbursed on or after July 1, 1998 the interest rate will be the bond equivalent yield of a security of a comparable maturity plus 2.1% not to exceed 9%. SLS Loans carry the same interest rate but are capped at 11%. Special Allowance Payments are available if the interest rate calculated under the new formula would exceed the applicable cap. Commencing July 1, 1994, however, the SLS Loan program will be merged into the unsubsidized Stafford Loan program with annual loan limits in the merged program equal to the combined limits of the two programs prior to the merger. See "Special Allowance Payments" herein.

Repayment of principal of PLUS and SLS Loans is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferral provisions. The deferral provisions which apply are more limited than those which apply to Stafford Loans. Interest Subsidy Payments are not available for such deferments, however, the Higher Education Act provides an opportunity for the capitalization of interest during such periods upon the agreement of the Lender and borrower. The applicable annual loan limit is not violated by any decision to capitalize interest.

A borrower may refinance all outstanding PLUS Loans under a single repayment schedule for principal and interest, with a new repayment period calculated from the date of repayment of the most recent included loan. The interest rate of such a combined PLUS Loan is the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a PLUS Loan which was initially originated at a fixed rate prior to July 1, 1987 in order to permit the borrower to obtain the variable interest rate available on PLUS Loans on and after July 1, 1987. If a lender is unwilling to reissue the original PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate. Substantially identical combined repayment and refinancing options are also available for SLS Loans.

#### **Consolidation Loans**

Under the 1986 Amendments, Congress established a program to provide loans to eligible borrowers for consolidating their student loans. The Reauthorization Bill and the 1993 Amendments amended certain provisions of the Consolidation Loan program. Under the program, an eligible borrower means a borrower with an outstanding indebtedness of at least \$7,500, who is in repayment status or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation. The \$7,500 threshold is eliminated for loans consolidated on or after July 1, 1994. The loans under this program are designated "Consolidation Loans." Under this program, a lender will make a Consolidation Loan to an eligible borrower at the request of the borrower

if the lender holds an outstanding loan of the borrower or the borrower certifies that he has been unable to obtain a Consolidation Loan from the holders of the outstanding loans of the borrower.

Consolidation Loans bear an interest rate equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent; for loans consolidated prior to July 1, 1994 such rate will not be less than nine percent per annum. The repayment schedules for Consolidation Loans will not exceed: 12 years for loans greater than or equal to \$7,500, but less than \$10,000; 15 years for loans greater than or equal to \$10,000, but less than \$20,000; 20 years for loans greater than or equal to \$20,000, but less than \$40,000; 25 years for loans greater than or equal to \$40,000, but less than \$60,000; and not more than 30 years for loans in excess of \$60,000. Effective July 1, 1994, Consolidation Loans for less than \$7,500 will have a repayment schedule of not more than 10 years. Repayment must commence within 60 days after all holders have discharged the liability of the borrower on the loans selected for consolidation. Effective for Consolidation Loan applications received by lenders on or after August 10, 1993, the Secretary will no longer make Interest Subsidy Payments on Consolidation Loans other than those loans which consolidate only Subsidized Stafford Loans.

#### **Education Loans Generally Not Subject to Discharge in Bankruptcy**

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

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

(8) for an educational benefit overpayment or loan made, insured or guaranteed by a governmental unit or made under any program funded in whole or in part by a governmental unit or a nonprofit institution, or for an obligation to repay funds received as an educational benefit, scholarship or stipend unless --

(A) such loan, benefit, scholarship or stipend overpayment first became due before seven years (exclusive of any applicable suspension of the repayment period) before the date of the filing of the petition; or

(B) excepting such debt from discharge under this paragraph will impose an undue hardship on the debtor and the debtor's dependents.

The 1990 Budget Reconciliation Act included language (Publication L101-508) amending the Bankruptcy Code to clarify the nondischargeability of educational loans under Chapter 13 bankruptcy filings. The legislative intent behind the nondischargeable status of educational loans is twofold: first, to prevent abuse and fraud by student borrowers in declaring bankruptcy immediately after completion of school, but before accumulation of any attachable assets; and second, as a public policy issue to encourage and ensure the continued availability of credit and funding for educational borrowing.

#### **Guarantee and Reimbursement**

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

The Secretary may withhold reimbursement payments if a guaranty agency makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary or applicable federal law. A supplemental guaranty agreement is subject to annual renegotiation and to termination for cause by the Secretary. The Authority has no knowledge that any aforementioned supplemental guaranty agreement will not be renegotiated on the same terms as are currently in effect.

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

Pursuant to most typical agreements for guarantee between a guaranty agency and the originator of the loan, any eligible holder of a loan insured by such a guaranty agency is entitled to reimbursement from such guaranty agency for 100% (or, for claims resulting other than from the death, bankruptcy or total and permanent disability of the borrower made on or after October 1, 1993, 98%) of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or discharge in bankruptcy of the student borrower. Guaranty agencies generally deem default to mean a student's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loans may reasonably conclude that the student no longer intends to honor the repayment obligation and for which the failure persists for 180 days in the case of a loan payable in monthly installments or for 240 days in the case of a loan payable in less frequent installments. When a loan becomes 60 days past due, the holder is permitted to request preclaims assistance from the applicable guaranty agency in order to attempt to cure the delinquency. When a loan becomes 150 days past due, the holder is required to make a final demand for payment of the loan by the student and to submit a claim for reimbursement to the applicable guaranty agency. The holder is required to continue collection efforts until the loan is 180 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guaranty agency all rights accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guaranty agency from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

If a student who has received any loan directly insured by the Secretary dies, becomes totally and permanently disabled or is discharged in bankruptcy, the Secretary is required to discharge the borrower's liability on the loan by repaying the amount owed.

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**Oklahoma Student Loan Authority  
Student Loan Revenue Bonds, Series 1994A**

**THE STATE GUARANTEE AGENCY  
DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION**

The following information concerning the State Guarantee Agency not otherwise attributed to another source has been obtained from the State Guarantee Agency for inclusion herein. The information contained in such material is not guaranteed as to accuracy or completeness by the Authority, Bond Counsel or the Underwriter, and is not to be construed as a representation by any of those persons. Neither the Authority, Bond Counsel or the Underwriter have independently verified this information and no representation is made by any of those persons as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date thereof.

If not otherwise defined below, capitalized terms used in this Appendix have the meanings given such terms in "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" hereto.

**The Oklahoma Guaranteed Student Loan Program**

The Oklahoma Guaranteed Student Loan Program ("OGSLP"), as herein referred to, is the Guarantor of the Federal Family Education Loan ("FFEL") Program conducted by the Oklahoma Student Loan Authority (the "Authority") and numerous other lenders making guaranteed education loans in Oklahoma under the guidelines of the Oklahoma State Regents for Higher Education (the "Regents"), acting as the "State Guarantee Agency".

The Regents administer and utilize the Student Educational Assistance Fund (the "Guarantee Fund") established in the Oklahoma State Treasury by Title 70 Oklahoma Statutes 1991, Sections 622 and 623, as amended, to guarantee education loans made by eligible lenders, including the Authority, to applicants who attend approved universities, colleges, vocational education or trade schools. The State Guarantee Agency and the Guarantee Fund are reinsured, and guarantee claims paid are reimbursed from 78% to 100% of the amount paid, subject to certain conditions, by the Secretary (the "Secretary") of the U.S. Department of Education (the "USDE") under the Higher Education Act of 1965, as amended (the "Higher Education Act").

OGSLP has been in operation in Oklahoma since November 1965. Except for the Authority, eligible lenders have primarily consisted of banks, savings and loan associations and credit unions. As of September 30, 1994, loans had been made by various eligible lenders and guaranteed by the State Guarantee Agency in the total principal amount of approximately \$1.5 billion, of which approximately \$986 million aggregate principal amount was outstanding. The Guarantee Fund balance (cash basis) at that date was \$11,223,116 or, 1.14% of the guaranteed principal amount outstanding.

**Guarantee and Reinsurance of Loans**

As of September 30, 1994, approximately 98.6% of the FFEL Program loans held by the Authority were guaranteed by the Regents acting as the State Guarantee Agency. Pursuant to that certain Agreement to Endorse Loans dated October 3, 1994 by and between the Regents and the Authority, the Authority is entitled to payment from the State Guarantee Agency for 100% (98% for loans first disbursed after October 1, 1993 except for Lender of Last Resort loans) of any proven loss incurred by the Authority resulting from default, and for 100% of any proven loss resulting from death, permanent and total disability or discharge in bankruptcy of the borrower. Under the Higher Education Act, a guarantor deems default to mean the borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder, such as the Authority, may reasonably conclude that the borrower no longer intends to honor the repayment obligation and in which the failure persists for 180 days. When a loan

becomes 151-180 days past due, the holder is required to make a final demand for payment of the loan by the borrower and to submit a claim for reimbursement within 90 days thereafter to the guarantor. The holder, such as the Authority, is required to continue collection efforts until the loan is 180 days past due. At the time of payment of insurance benefits, the holder, such as the Authority, must assign to such guarantor all rights accruing to the holder under the notes evidencing the loan.

The guarantee obligations of the State Guarantee Agency are reinsured by the Secretary. Pursuant to the Higher Education Act, the Regents, acting as the State Guarantee Agency, entered into an Agreement for Federal Reinsurance of Loans Pursuant to Section 428(c) of the Higher Education Act of 1965, as amended (the "Federal Reinsurance Agreement") with the Secretary, dated October 20, 1977, as amended, and a Supplemental Guarantee Agreement for Federal Reinsurance of Loans (the "Supplemental Guarantee Agreement") with the Secretary dated May 4, 1984, as amended, pertaining to the Secretary's reimbursement to the State Guarantee Agency for amounts expended by the Regents in discharge of its insurance obligations with respect to defaults by borrowers in the payment of principal or interest on loans guaranteed by the Regents. The Supplemental Guarantee Agreement is subject to annual renegotiation and to termination for cause by the Secretary.

#### The State Regents For Higher Education

The Regents, acting as the State Guarantee Agency, operate OGSLP and administer the Guarantee Fund. The Regents were established pursuant to Article XIII-A, Oklahoma Constitution, Sections 1 through 4 adopted in 1941 as a nine member governing board. Members of the Regents are appointed by the Governor of the State, confirmed by the State Senate, and are removable only for cause. The term of office of the Regents is nine years. The terms are overlapping. Regents serve until their successors are appointed and qualified. The present members and officers of the Regents, and their principal occupations are as follows:

<u>Name</u>	<u>Office</u>	<u>Term Expiration</u>	<u>Principal Occupation</u>
Ed L. Calhoun, M.D.	Chairman	May 1995	Physician; Beaver, OK
Frederick W. McCann	Vice Chairman	May 1999	Attorney; Oklahoma City, OK
Anne Hodges Morgan	Secretary	May 1997	Author and Consultant; Norman, OK
Robert L. McCormick*	Assistant Secretary	May 2000	President, Stillwater National Bank; Stillwater, OK
James E. Barnes	Member	May 1996	Chairman and President, MAPCO, Inc.; Tulsa, OK
Glenn A. Cox	Member	May 1998	Retired Chief Exec. Officer, Phillips Petroleum Co.; Bartlesville, OK
John Massey*	Member	May 2001	Chairman, Durant Bank and Trust Co.; Durant, OK
Bill W. Burgess	Member	May 2002	Attorney, Burgess Law Firm; Lawton, OK
Leonard Eaton	Member	May 2003	Financial Consultant; Tulsa, OK

Source: The Regents

\*Stillwater National Bank and Durant Bank and Trust Company are eligible lenders participating in the OGSLP.

The Regents are the governing board for the unified system known as The Oklahoma State System of Higher Education (the "Higher Education System") which was created by Article XIII-A, Oklahoma Constitution, Section 1 in 1941. The

Higher Education System consists of all institutions of higher education in the State supported wholly or in part by legislative appropriations, and is presently composed of: (i) two Comprehensive Universities and their nine constituent agencies; (ii) ten regional and senior State Universities; and (iii) 13 two year Colleges.

In addition to operating OGSLP and administering the Guarantee Fund, the responsibilities of the Regents include: (i) determining functions and courses of study for each educational institution; (ii) prescribing standards of higher education applicable at each institution; (iii) granting degrees and other forms of academic recognition for completion of prescribed courses of study at institutions; (iv) recommending to the State Legislature the budget needs of institutions; and (v) recommending to the State Legislature proposed student fees at all institutions and subsequently prescribing and coordinating fees within limits set by the State Legislature. In addition, the Regents approve educational programs and degrees for private institutions of higher education and accredited institutions in the State pursuant to the coordinating authorization of the Oklahoma constitution.

Pursuant to Article XIII-A, Oklahoma Constitution, Section 3, appropriations made by the State Legislature for all institutions that are a part of the Higher Education System are made in consolidated form without reference to any particular institution. The Regents allocate the appropriation to each institution according to its needs and functions. For the Fiscal Year ended June 30, 1994, the higher education appropriation was approximately \$556.4 million, and the Regents' total budget was approximately \$853.3 million. For the Fiscal Year ending June 30, 1995, the higher education appropriation is approximately \$557.7 million, and the Regents' total budget is approximately \$876.4 million.

The Regents appoint a chief executive officer, the Chancellor of Higher Education, and approve appointments of other administrative personnel necessary to administer the affairs of the Regents. The present Chancellor is Dr. Hans Brisch. Gary Smith is the Executive Vice-Chancellor of the Regents responsible for the administration of OGSLP. The following are brief biographies of Dr. Brisch and Mr. Smith.

*Dr. Hans Brisch - Chancellor.* Dr. Brisch was appointed Chancellor of the Regents on December 14, 1987. Prior to that, Dr. Brisch served as Chief of Staff to Governor Kay Orr of Nebraska. Dr. Brisch received his Bachelor of Arts degree in Political Science from Park College in 1964. He also received his Master of Arts and Doctor of Philosophy degrees in Political Science from the University of Kansas in 1967 and 1970, respectively.

*Mr. Gary Smith - Executive Vice Chancellor & Chief Operating Officer.* Mr. Smith was appointed as Executive Vice Chancellor of the Regents in August, 1988. Before joining the Regents' staff, Mr. Smith acted as Vice President for Administrative Affairs at the University of Oklahoma Health Sciences Center and as Director of Internal Audits for the University of Oklahoma. Mr. Smith received his Bachelor of Science degree from the University of Central Oklahoma (Edmond, Oklahoma) in Business Administration in 1964.

#### State Guarantee Agency Administration

The state Guarantee Agency operations are performed by OGSLP as a function within the Regents. OGSLP employs approximately 130 full time equivalent employees under the direction of Mr. Smith. Mr. Smith is assisted in this capacity by Alice Strong as Director of OGSLP and Director of Human Resources for the Regents since July, 1988. Prior to joining the Regents, Ms. Strong was employed by the Federal Aviation Administration. She received her Bachelor of Science degree in Elementary Education from Langston University (Langston, Oklahoma) in 1967 and the degree of Master of Public Administration from the University of Oklahoma (Norman, Oklahoma) in 1978. The offices of the OGSLP are located at 621 North Robinson Avenue, Suite 201, Oklahoma City, Oklahoma 73102; Telephone (405) 552-4300.

OGSLP is organized into seven divisions. The organizational divisions of OGSLP are as follows:

A. *Administrative Division.* This Division performs the records management and their administrative services including purchasing and building management. The Administrative Division is managed by Mary Jo Linder who has been employed by the Regents since 1984. Ms. Linder received her Bachelor's of Science degree (Accounting) in 1987 from the University of Central Oklahoma (Edmond).

B. *Financial Services.* This Division is responsible for: (i) school and lender reviews and for monitoring general compliance with federal regulations by all guaranteed student loan program participants; (ii) financial and operational reports; and (iii) the Accounting Department which is responsible for monthly reports to USDE. The Financial Services Division is managed by Dr. Glendon Forgey, C.P.A. who also serves as Assistant Director of OGSLP. Dr. Forgey has been employed by the Regents with OGSLP since 1980. Dr. Forgey received his Bachelor of Science degree (Accounting) in 1980 and his Master of Business Administration degree in 1987 from the University of Central Oklahoma (Edmond), and the degree of Doctor of Education in 1991 from the University of Oklahoma (Norman).

C. *Customer Services Division.* This Division is responsible for: (i) the Applications Department which processes all loan applications; (ii) the Customer Service Department; (iii) the Training Department which prepares training materials and conducts training conferences for OGSLP lenders and schools; and (iv) the status management department which is responsible for updating and maintaining the borrowers' status on OGSLP's data base, and for guarantee fee billing to lenders. The Customer Services Division is managed by Rick Edington who has been employed by the Regents with OGSLP since 1987. Mr. Edington received his Bachelor of Business Administration degree (Finance) in 1984 from the University of Oklahoma (Norman) and his Master of Business Administration degree in 1993 from the University of Central Oklahoma (Edmond).

D. *Claims Division.* The Claims Division is responsible for the payment of default claims, reviewing the default claims for approval or rejection and monitoring whether due diligence and other requirements were met. The Claims Division includes the Default Preventions Department which works with lenders to provide assistance in locating borrowers, converting borrowers to payout status, or collecting interest. After an account has been in delinquency status for 120 days, OGSLP engages in supplemental preclaims activities to attempt to prevent defaults from occurring. The Claims Division is managed by Rick Sykora, who has been employed by the Regents with OGSLP since 1987. Mr. Sykora received his Bachelor of Business Administration degree in 1983 from the University of Central Oklahoma (Edmond) and his Master of Business Administration degree in 1993 also from the University of Central Oklahoma.

E. *Management Information Systems (MIS).* This Division is responsible for the maintenance of the computer system, the telephone system and other computer related activity. The MIS Division is managed by Bob Edney who has been employed by the Regents with OGSLP since July 1991.

F. *Recoveries Division.* This Division concentrates efforts on the collection of defaulted loans, including account referral to a collection agency. OGSLP participates in the Oklahoma Tax Commission's tax warrant intercept program to prevent defaulted student loan borrowers from receiving their state income tax refund check. OGSLP began participating in this program in December 1987, and had collected \$1.3 million through September 30, 1994. OGSLP began an administrative wage garnishment program in February 1994. This program allows OGSLP to garnish 10% of the disposable wages of a defaulted borrower. OGSLP performs automated matches with the employment agencies of several surrounding states. Through September 30, 1994, OGSLP had collected \$716,000 in wage garnishments. The Recoveries Division is managed by Larry LeVern who has been employed by the Regents with OGSLP since 1988. Mr. LeVern received his Bachelor of Arts degree (Speech) in 1974 from Oklahoma State University (Stillwater).

G. *Legal Division.* This Division employs five (5) staff members to file suit and perform litigation activities to collect defaulted loans. The Legal Division is managed by Regina Switzer, Esq. who has been employed by the Regents since December 1992. Ms. Switzer received her Bachelor of Science degree



(Psychology) in 1989 from the University Oklahoma (Norman), and her Juris Doctor degree in 1992 also from the University of Oklahoma.

#### **Service Area**

The State Guarantee Agency guarantees loans for students (or parents in the case of PLUS Program loans) who are otherwise eligible for loans if the student is attending a participating eligible school on at least a half-time basis.

The State Guarantee Agency provides for the eligibility of all lenders described in Section 435(d)(1) of the Higher Education Act. There are approximately 131 participating lenders, of which 37 actively originate student loans guaranteed by the State Guarantee Agency.

#### **Electronic Data Processing Support**

OGSLP uses the integrated software system for administering education loans provided by United Student Aid Funds, Inc. pursuant to an agreement between the Regents and United Student Aid Funds, Inc. dated September 7, 1989, as amended and extended. This software system is operated from terminals controlled by OGSLP and connected to the United Student Aid Funds, Inc.'s system, which provides for loan application processing, guarantee fee billings to lenders, loan status management, preclaims assistance, claims processing, post claims operations (including reinsurance claims to the USDE), and reporting.

#### **Guarantee Fees Charged**

For guaranteeing an education loan, the State Guarantee Agency presently charges a one percent (1%) fee on the principal amount of the loan disbursed by the lender to the borrower. This fee is paid once with no further adjustments, and is subtracted from the guaranteed loan amount prior to disbursement by the lender. The one percent (1%) fee charge has been in effect by the State Guarantee Agency since July 1, 1994 pursuant to amendments in the Higher Education Act. From July 1, 1987 through June 30, 1994, the State Guarantee Agency charged a guarantee fee of three percent (3%) of the guaranteed principal amount, but was required to pay USDE one-half percent (0.5%) as a reinsurance premium, resulting in a net guarantee fee of two and one-half percent (2.5%).

In the Fiscal Year ended June 30, 1994, net guarantee fee (less reinsurance premiums paid) income earned by the State Guarantee Agency was approximately \$4,328,000. The net reduction of guarantee fees charged will result in a significant loss of revenue to the State Guarantee Agency in the current Fiscal Year and subsequently. If the new guarantee fee rate had been in effect for the Fiscal Year ended June 30, 1994, the revenue reduction would have been approximately \$2,595,000.

To adjust for this adverse impact on revenue in the Fiscal Year ending June 30, 1995 and subsequently, the State Guarantee Agency is implementing (or expects to implement) the following:

A. A reduction of the claims payment trigger rate to increase the amount of reinsurance payments from USDE, see the caption "Trigger Rate" herein;

B. An increase in interest earnings on the Guarantee Fund due to higher interest rates;

C. A reduced capital outlay because OGSLP has acquired sufficient technical capability, including a telephone auto-dialer for increased telephone collection calls, over the past several years to support additional efficiency in collection without additional capital expenditures;

D. Increased fee retention from collections of defaulted loans due to administrative wage garnishments and consolidation and rehabilitation of defaulted loans resulting in a retention of 18.5% of principal restored to performing status; and

E. Increased guarantee fee revenue from guaranteeing loans at eligible institutions that previously chose another guarantor because the State Guarantee Agency's fee was higher.

**Annual Guaranteed Loan Volume**

Since November 1965, the State Guarantee Agency has a cumulative volume of loan principal guaranteed totalling approximately \$1.5 billion, representing approximately 670,000 loans to eligible borrowers. The State Guarantee Agency began guaranteeing Unsubsidized Stafford Loans for Middle Income Borrowers ("Unsubsidized Stafford") in December 1992, pursuant to the authorization of that education loan type by the Higher Education Amendments of 1992. Beginning July 1, 1994, the SLS loan type was replaced and merged into the Unsubsidized Stafford loan program. The State Guarantee Agency began guaranteeing Federal Consolidation Loans ("Consolidation") in November 1993.

During the past five federal fiscal years, the loan principal volume guaranteed by the State Guarantee Agency was as shown on the following Table:

Annual Education Loan Guarantees

	Federal Fiscal Year Ended 9/30/94	Federal Fiscal Year Ended 9/30/93	Federal Fiscal Year Ended 9/30/92	Federal Fiscal Year Ended 9/30/91	Federal Fiscal Year Ended 9/30/90
<u>No. of Loans Guaranteed</u>					
Stafford (subsidized)	60,280	54,796	50,895	45,817	43,757
Unsubsidized					
Stafford	16,759	5,324	0	0	0
PLUS	2,688	3,891	6,398	4,733	4,104
SLS	7,173	10,543	8,835	9,466	7,716
Consolidation	763	0	0	0	0
<u>Total</u>	<u>87,663</u>	<u>74,554</u>	<u>66,128</u>	<u>60,016</u>	<u>55,577</u>
<u>Principal Amount Guaranteed</u>					
Stafford (subsidized)	\$164,813,708	\$144,899,972	\$123,277,827	\$113,271,878	\$102,992,930
Unsubsidized					
Stafford	45,472,548	11,817,733	0	0	0
PLUS	10,755,429	12,323,011	16,848,033	12,945,400	11,442,286
SLS	17,280,522	26,596,502	23,266,331	20,884,965	19,785,150
Consolidation	54,263,994	0	0	0	0
<u>Total</u>	<u>\$292,586,201</u>	<u>\$195,637,218</u>	<u>\$163,392,191</u>	<u>\$147,102,243</u>	<u>\$134,220,366</u>
<u>Institution Type</u>					
4 Year Univ.	\$175,304,211	\$146,609,582	\$113,857,023	\$ 94,336,077	\$ 85,541,432
2 Year College	35,227,306	25,345,260	18,847,776	16,594,356	13,632,265
Proprietary	27,790,690	23,682,276	30,687,392	36,171,810	35,046,669
<u>Total</u>	<u>\$238,322,207*</u>	<u>\$195,637,218</u>	<u>\$163,392,191</u>	<u>\$147,102,243</u>	<u>\$134,220,366</u>

Source: OGSIP

\*OGSIP's system does not track Consolidation loan approvals by institution type.

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## Outstanding Portfolio Composition

The composition of the State Guarantee Agency's outstanding loan principal guaranteed during the last five federal fiscal years has been as shown in the following Table:

### Composition of Outstanding Education Loan Guarantees

	Federal Fiscal Year Ended 9/30/94	Federal Fiscal Year Ended 9/30/93	Federal Fiscal Year Ended 9/30/92	Federal Fiscal Year Ended 9/30/91	Federal Fiscal Year Ended 9/30/90
<b>Loan Principal Outstanding</b>					
Stafford (subsidized)	\$726,900,536	\$630,217,012	\$554,999,386	\$491,540,919	\$435,727,078
Unsubsidized					
Stafford	53,287,554	11,303,797	0	0	0
PLUS	65,734,033	60,570,899	45,642,597	30,978,615	25,980,096
SLS	85,767,184	80,612,091	73,656,384	63,124,105	48,350,971
Consolidation	53,972,156	0	0	0	0
<b>Total</b>	<b>\$985,661,463</b>	<b>\$782,703,799</b>	<b>\$674,298,367</b>	<b>\$585,643,639</b>	<b>\$508,058,145</b>
<b>Loan Status</b>					
Interim	\$350,667,742	\$273,035,514	\$219,327,960	\$194,407,917	\$176,203,805
Deferred	47,974,475	56,973,312	44,852,802	29,354,610	24,500,206
Repayment	577,019,275	452,694,973	411,117,605	361,881,112	307,354,134
<b>Total</b>	<b>\$985,661,492</b>	<b>\$782,703,799</b>	<b>\$674,298,367</b>	<b>\$585,643,639</b>	<b>\$508,058,145</b>
<b>Institution Type</b>					
4 Year University	80.8%	78.9%	75.7%	67.8%	67.5%
2 Year College	10.6	10.4	10.0	4.4	7.6
Proprietary	8.6	10.7	14.3	27.8	24.9
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Source: OGSLEP

## Trigger Rate

The "trigger rate" is the ratio of the amount of reinsurance claims paid to a guarantee agency during a federal fiscal year ending September 30, to that guarantor's amount of loans in repayment at the end of the preceding federal fiscal year expressed as a percentage. The trigger rate determines the rate of reimbursement of claims payments which the State Guarantee Agency is reimbursed by the USDE pursuant to the Federal Reinsurance Agreement and Supplemental Guaranty Agreement. Reimbursements by the USDE are subject to a sliding scale based on the trigger rate, as follows:

<u>Default Claim Rate</u>	<u>Loans Prior to 10/1/93 Reimbursement Rate</u>	<u>Loans After 9/30/93 Reimbursement Rate</u>
Up to 5.0%	100%	98%
5.0% up to 9.0%	90%	88%
9.0% and over	80%	78%

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During the past five federal fiscal years, the trigger rate for the State Guarantee Agency has been as shown on the following Table:

Trigger Rate of the State Guarantee Agency

<u>Federal Fiscal Year Ended 9/30</u>	<u>Trigger Numerator</u>	<u>Trigger Denominator</u>	<u>Rate</u>
1994	\$28,952,615	\$476,558,459	5.96%
1993	27,277,618	432,019,693	6.30
1992	25,839,426	385,726,429	6.70
1991	30,098,281	347,024,500	8.67
1990	17,626,926	255,845,822	6.89

Source: OGSLLP

Under the trigger rate formula, reimbursements of claim payments are made by USDE at 100% of the amount of the claim (with certain exceptions, at 98% for loans first disbursed on or after October 1, 1993) until such payments during the federal fiscal year reach five percent (5%) of the loan principal in repayment at the end of the previous federal fiscal year. For the remainder of the federal fiscal year, reimbursements are made at 90% of the amount of the claim (with certain exceptions, at 88% for loans first disbursed on or after October 1, 1993) with the guarantor, such as the State Guarantee Agency, responsible as a co-insurer for the difference. During the federal fiscal year ended September 30, 1994, the State Guarantee Agency had approximately \$457,000 in potential reimbursements of claim payments denied because of this factor.

As shown in the Table above, the State Guarantee Agency's trigger rate has improved significantly over the past several years. The State Guarantee Agency attributes this improvement to several reasons, including:

- A. Enforcement activities of USDE regarding the eligibility of educational institutions to participate in the FFEL Program because of high cohort default rates of borrowers that attended such institutions;
- B. Implementation of a Default Prevention Program operated in the Claims Division;
- C. The implementation of guaranteeing Federal Consolidation Loans which maintains loans in the repayment portfolio as part of the calculation of the trigger rate.

OGSLLP's management objective for the federal fiscal year ending September 30, 1995 is to avoid hitting the five percent (5%) "trigger", thereby obtaining reinsurance to the full amount available.

**Federal Administrative Cost Allowances Advances**

Upon periodic application by a guarantor pursuant to the Higher Education Act, the Secretary is authorized to pay such guarantor an administrative cost allowance up to one percent (1%) of the total principal amount of student loans guaranteed in any fiscal year. The USDE has committed to paying guarantors one percent (1%) of loan volume for the federal fiscal year ending September 30, 1995. The USDE is in process of evaluating a method for Administrative Cost Allowance payments during the transition of the FFEL Program to the William D. Ford Federal Direct Loan Program ("FDLSLP") operated by USDE.

**Guarantee Fund Reserve Balance**

The cumulative summary of sources and uses of the Guarantee Fund balance since its inception are shown in the following Table:

Fund Balance of the State Guarantee Agency  
(September 30, 1994, Cash Basis)

Sources (Cumulative)

State Appropriations	\$ 1,952,966
Federal Advances	-0-
Investment Income	6,657,217
Guarantee Fees	33,629,218
Federal Reinsurance	198,492,543
Collections Recoveries	55,647,756
Administrative Cost Allowance	11,843,015
Supplemental Preclaims Assistance	1,816,534
Other	<u>1,084,595</u>

Total Sources of Funds \$311,123,844

Uses (Cumulative)

Claims Paid	\$212,446,562
Operating Costs	47,377,413
Recoveries to USDE	35,406,249
Reinsurance Fees to USDE	4,670,504
Other	<u>0</u>

Total Uses of Funds 299,900,728

Fund Balance (Cash Basis),  
as of September 30, 1994 \$ 11,223,116

Source: OGSFP

Based on the Guarantee Fund balance above and the outstanding loan principal guaranteed at that date, the Reserve Ratio (cash basis) for the State Guarantee Agency at September 30, 1994 was 1.14%. This ratio exceeds the requirements of the Higher Education Act. Based upon the Higher Education Amendments of 1992 to the Higher Education Act, the State Guarantee Agency is required to maintain a Reserve Ratio of 0.7% for the current Fiscal Year ending June 30, 1995, 0.9% for the Fiscal Year ending June 30, 1996, and increasing to 1.10% for the Fiscal Year ending June 30, 1997.

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The Guarantee Fund balance, compared to the amount of outstanding loan principal guaranteed, and resulting Reserve Ratio for the last five federal fiscal years was as shown in the following Table:

Guarantee Fund Balance and Loan Principal Guaranteed  
(Cash Basis Fund Balance)

<u>Federal Fiscal Year Ended 9/30</u>	<u>Guarantee Fund Balance</u>	<u>Outstanding Loan Principal Guaranteed</u>	<u>Reserve Ratio</u>	<u>National Average</u>
1994 <sup>1</sup>	\$11,223,116 <sup>1</sup>	985,661,492	1.14% <sup>1</sup>	N/A %
1993	9,897,659	782,703,799	1.26	N/A %
1992	8,455,927	674,298,367	1.25	1.50%
1991 <sup>2</sup>	7,472,607 <sup>2</sup>	586,072,314	1.28 <sup>2</sup>	0.80%
1990	7,284,782	508,058,145	1.43	1.00%

<sup>1</sup>Presented on a Cash Basis. The State Guarantee Agency paid an additional \$1.5 million in defaulted claims during September 1994 that would not have normally been paid during September. The additional claims were paid as part of an initial effort to comply with timely payment of claims within sixty (60) days. The State Guarantee Agency realizes that USDE is not yet enforcing this policy, but is attempting to save interest from being paid on defaulted loans. If the additional \$1.5 million, which is due from USDE as a receivable, had not been paid, the State Guarantee Agency's Guarantee Fund reserve (cash basis) would have been approximately \$12,750,000 and the Reserve Ratio would have been 1.29%.

<sup>2</sup>Pro-forma amount. The Guarantee Fund balance is presented on a cash basis. As of September 30, 1991, the cash basis Guarantee Fund balance was \$3,430,580, but the State Guarantee Agency had \$4,674,194 in reinsurance payments receivable from USDE (received October 3, 1991) and \$632,167 of collections payable to USDE. The net amount of \$4,042,027 that the State Guarantee Agency expected to receive from USDE prior to September 30, 1991 would have made an increase of \$187,825 from the previous September 30.

Sources: OGSFP (FFY 1994, 1993 and 1992) and U.S. Department of Education, Fiscal Year 1991 Guaranteed Student Loan Programs Data Book

The Guarantee Fund is maintained in the State Treasury and invested in short-term obligations of, or guaranteed by, the U.S. Government and otherwise pursuant to the investment powers and policies of the State Treasurer.

There is no assurance that the state appropriations, investment income, insurance premiums and federal reimbursements will continue to be deposited in amounts consistent with past experience. The Guarantee Fund is not a reserve for the Authority's bonds or notes or the education loans of the Authority only, but is an insurance reserve established in respect to any claims that might be submitted by any participating eligible lender with regard to any education loans guaranteed by the State Guarantee Agency.

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## Sources and Uses of Funds for the Guarantee Fund

The Sources and Uses of Funds for the Guarantee Fund prepared on a cash basis of accounting for the past five federal fiscal years has been as shown in the following Table:

### Sources and Uses of Funds (Cash Basis)

Sources of Funds	Federal Fiscal Year Ended 9/30/94	Federal Fiscal Year Ended 9/30/93	Federal Fiscal Year Ended 9/30/92	Federal Fiscal Year Ended 9/30/91	Federal Fiscal Year Ended 9/30/90
<b>Administrative Cost</b>					
Allowance	\$ 2,344,195	\$ 1,286,959	\$ 1,815,832	\$ 687,576	\$ 1,511,912
Guarantee Fees	4,861,393	4,414,191	4,221,201	3,637,721	4,018,346
Collections Recoveries	14,675,856	11,274,962	7,120,790	4,846,991	3,863,648
Federal Reinsurance	29,959,290	31,702,730	31,140,834	25,705,420	17,752,567
Investment Income	337,165	204,742	249,218	391,539	459,289
Supp. Preclaims Assistance	528,084	669,000	618,850	0	0
Other	167,087	191,255	170,425	18,149	140,868
<b>Total Sources</b>	<b>\$52,873,070</b>	<b>\$49,744,439</b>	<b>\$45,337,150</b>	<b>\$35,287,396</b>	<b>\$27,746,630</b>
<b>Uses of Funds</b>					
Claims Paid	\$31,313,116	\$31,669,623	\$28,941,709	\$31,339,677	\$19,000,175
Operating Costs	9,145,974	9,614,443	5,831,013	4,572,157	4,939,510
Recoveries to USDE	10,268,450	6,533,275	4,631,165	2,647,609	2,582,159
Reinsurance Fees to USDE	820,073	485,366	907,916	582,155	795,523
<b>Total Uses</b>	<b>\$51,547,613</b>	<b>\$48,302,707</b>	<b>\$40,311,803</b>	<b>\$39,141,598</b>	<b>\$27,317,367</b>
<b>Excess (or loss)</b>	<b>\$ 1,325,457</b>	<b>\$ 1,441,732</b>	<b>\$ 5,025,347<sup>1</sup></b>	<b>\$(3,854,202)<sup>1</sup></b>	<b>\$ 429,263<sup>2</sup></b>

<sup>1</sup>Pursuant to state law, the Regents maintain their accounting records on the cash basis. As of September 30, 1991, the State Guarantee Agency had a net amount of \$4,042,027 receivable from USDE (received October 3, 1991) which the State Guarantee Agency expected to receive from USDE prior to September 30. If such payments had been received and made by September 30, 1991, the pro-forma Excess (or loss) for the federal fiscal years ended September 30, 1992 and 1991 would have been:

	FFY 9/30/92	FFY 9/30/91
As reflected on cash basis	\$ 5,025,347	\$(3,854,202)
Reinsurance payment received Oct. 3, 1991	(4,674,194)	4,674,194
Collections paid on Oct. 3, 1991	632,167	(632,167)
<b>Pro-Forma Excess (or Loss)</b>	<b>\$ 983,320</b>	<b>\$ 187,825</b>

<sup>2</sup>During the federal fiscal year ended September 30, 1990, OGSIF expensed certain non-recurring expenditures in the amount of approximately \$236,000 for the purchase of data processing and communications equipment, as well as software for automated services. Under generally accepted accounting principles, this acquisition amount would have been expensed over the estimated useful life of the assets.

Source: OGSIF

### Cumulative Default Rate

The matured paper, default claims paid to lenders and the collection recoveries, on a cumulative basis, and the related gross and net default rates for the State Guarantee Agency for the last five federal fiscal years is shown in the following Table:

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**Cumulative Matured Paper Claims and Default Rates  
(\$000)**

	Federal Fiscal Year Ended <u>9/30/94</u>	Federal Fiscal Year Ended <u>9/30/93</u>	Federal Fiscal Year Ended <u>9/30/92</u>	Federal Fiscal Year Ended <u>9/30/91</u>	Federal Fiscal Year Ended <u>9/30/90</u>
<b><u>Cumulative Matured Paper</u></b>					
Stafford (subsidized)	\$ 775,580	\$677,523	\$591,268	\$513,091	\$430,479
Unsubsidized Stafford	53,407	11,308	0	0	0
PLUS	78,669	69,323	57,941	42,482	29,990
SLS	130,856	117,102	93,502	71,933	53,611
Consolidation	<u>54,264</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$1,092,776</u></b>	<b><u>\$875,256</u></b>	<b><u>\$742,711</u></b>	<b><u>\$627,506</u></b>	<b><u>\$514,080</u></b>
<b><u>Cumulative Defaults Paid</u></b>					
Stafford (subsidized)	\$ 165,364	\$142,275	\$120,375	\$ 99,405	\$ 78,805
Unsubsidized Stafford	12	0	0	0	0
PLUS	6,234	4,759	3,417	2,146	841
SLS	30,332	24,472	18,685	13,489	5,987
Consolidation	<u>173</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 202,115</u></b>	<b><u>\$171,506</u></b>	<b><u>\$142,477</u></b>	<b><u>\$115,040</u></b>	<b><u>\$ 85,633</u></b>
<b><u>Lenders' (Gross) Default Rate</u></b>					
Default Rate (OGSLP)	18.5%	19.6%	19.2%	18.3%	16.7%
National Average	N/A %	17.7%	17.7%	16.6%	15.0%
<b><u>Cumulative Collections</u></b>					
Stafford (subsidized)	\$ 66,690	\$ 51,590	\$ 39,718	\$ 30,455	\$ 23,408
Unsubsidized Stafford	0	0	0	0	0
PLUS	1,710	1,055	497	163	23
SLS	5,371	2,963	1,432	482	77
Consolidation	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total</b>	<b><u>\$ 73,771</u></b>	<b><u>\$ 55,608</u></b>	<b><u>\$ 41,647</u></b>	<b><u>\$ 31,100</u></b>	<b><u>\$ 23,508</u></b>
<b><u>Net Default Rate (OGSLP)</u></b>					
Net Default Rate (OGSLP)	11.7%	13.2%	13.6%	13.4%	12.1%
National Average	N/A	11.5%	12.1%	11.8%	10.7%

Sources: OGSLP (FFY 1994, 1993 and 1992) and U.S. Department of Education Fiscal Year 1991 Guaranteed Student Loan Programs Data Book.



## Status of Federal "Spend-Down"

The USDE had advanced the State Guarantee Agency \$677,181 pursuant to an Agreement for Federal Advances under The Higher Education Act between the Regents and the Secretary. During the federal fiscal year ended June 30, 1989, the USDE recovered the amount claimed against the State Guarantee Agency's eligible reinsurance claims. The total amount that the State Guarantee Agency was required to return was \$1,095,678. As a result, the State Guarantee Agency has no further spend-down obligation to the USDE.

## Pending Legislation and Litigation

There is no State legislative action pending or proposed with respect to OGSLP or the Guarantee Fund.

There is no currently pending or, to the knowledge of the Regents, threatened legal proceeding with respect to OGSLP and the Guarantee Fund except for defaulted loan collection recovery efforts in normal course of operations.

## Federal Direct Loan Program

Beginning July 1, 1994, USDE began implementing its FDSLPL which deals directly with schools by eliminating lenders and guarantors. Consequently, FDSLPL is in direct competition with the FFEL Program. FDSLPL involves loans made by USDE through participating schools. Nationally, it is intended to comprise a volume equal to 5% of student loan volume in the year ending June 30, 1995. In Oklahoma, Oklahoma State University, Stillwater, Oklahoma is participating 100% in FDSLPL in the first year. In the four months ended October 31, 1994 of the current Fiscal Year, Oklahoma State University accounted for approximately \$200,000 of the FFEL loan volume guaranteed by the State Guarantee Agency compared with approximately \$26,300,000 of loan guarantees in the comparable period a year ago. However, despite this decrease due to FDSLPL, during the four months ended October 31, 1994 of the current Fiscal Year, the State Guarantee Agency guaranteed approximately \$137,000,000 compared with a loan guarantee volume of approximately \$124,600,000 in the comparable period a year ago. This is an increase of 9.95%.

In future years the target share of the annual student loan volumes for FDSLPL are: 40% in the year ending June 30, 1996; 50% in the years ending June 30, 1997 and 1998; and 60% in the year ending June 30, 1999. In addition, USDE intends to offer FDSLPL Direct Consolidation Loans, including offering borrowers the opportunity to prepay FFEL Program loans and consolidate them in the Federal Direct Consolidation Loan Program. The State Guarantee Agency is not able to predict the percentage of participation in its service area from the implementation of FDSLPL.

At July 1, 1994, there were 43 guarantee agencies participating in the FFEL Program nationally. In view of the planned reduction of the FFEL Program loan volume, USDE has advocated the merger or consolidation of such guarantors into regional combinations with a significantly reduced number continuing to operate as guarantors of FFEL Program loans. Since July 1, 1994, some state guarantee agencies have ceased operating and others are reported to be discussing mergers or other reorganizations. The State Guarantee Agency has not discussed the possibility of merger or other reorganization with any other guarantor or with USDE.

## Changes in Federal Law

Since its original enactment, the Higher Education Act has been amended and reauthorized several times, including the Higher Education Amendments of 1986, 1990, 1992 and 1993. There can be no assurances that the Higher Education Act, or other relevant law, will not be changed in a manner that could adversely impact the State Guarantee Agency's operation in the FFEL Program.

The Student Loan Reform Act of 1993 enacted a variety of changes in the FFEL Program, and enacted the new FDSLPL with direct lending by the USDE to

students. Among other things, changes made to the FFEL Program included imposing on guarantors, such as the State Guarantee Agency, a reduction of the reinsurance level on defaulted loans to 98% of the claim amount as co-insurance for defaulted loans first disbursed on or after October 1, 1993 and a further reduction at the first and second "trigger rates" as discussed in the section captioned "Trigger Rate" herein. In addition, the maximum guarantee fee that could be charged was reduced from three percent (3%) to one percent (1%) as discussed in the section captioned "Guarantee Fees Charged" herein. Furthermore, the retention rate on collection recoveries was reduced from 30% to 27%.

The transition from the FFEL Program to the new FDSLRF will involve increasing reductions in the volume of loans made under the FFEL Program generally. As these reductions occur, servicing cost increases and revenue reductions for guarantors, such as the State Guarantee Agency, may occur. The Student Loan Reform Act of 1993 may therefore have a material adverse impact on guarantee agencies such as the State Guarantee Agency.

#### **Financial Statements**

Beginning with the Fiscal Year ended June 30, 1992, the financial statements of the Guarantee Fund were prepared on the basis of generally accepted accounting principles. The financial statements for the Fiscal Year ended June 30, 1994 (with comparative totals at June 30, 1993) were audited and reported on by Coopers & Lybrand L.L.P., Oklahoma City, Oklahoma, independent certified public accountants. Such financial statements (including the Notes thereto), and the accountants' report thereon, are attached hereto as pages C-15 through C-24, inclusive.

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**REPORT OF INDEPENDENT ACCOUNTANTS**

Oklahoma State Regents for Higher Education  
Oklahoma City, Oklahoma

We have audited the accompanying balance sheets of the Oklahoma Guaranteed Student Loan Program ("OGSLP") as of June 30, 1994, and the related statements of revenues, expenditures and changes in fund balances for the year then ended. These financial statements are the responsibility of the OGSLP's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Guaranteed Student Loan Program as of June 30, 1994, and the revenues, expenditures and changes in fund balances for the year then ended in conformity with generally accepted accounting principles.

Oklahoma City, Oklahoma  
September 22, 1994

*Coopers & Lybrand L.L.P.*

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
BALANCE SHEETS

JUNE 30, 1994  
WITH COMPARATIVE TOTALS AT JUNE 30, 1993

	Current Funds Restricted	Plant Funds	Totals
	1994	1994	1993
<b>ASSETS</b>			
Cash	\$ 925,363	\$ -	\$ 303,677
Investments	12,203,994	-	8,454,911
Receivables:			
Administrative cost allowance	412,194	-	428,338
Guarantee fees	186,420	-	191,567
Interest	93,264	-	19,859
Federal reinsurance	4,806,804	-	5,151,302
Non-reinsured defaulted loans	1,372,110	-	1,561,090
Supplemental preclaims assistance	63,761	-	107,450
Miscellaneous	33,995	-	44,168
Total receivables	<u>6,668,548</u>	<u>-</u>	<u>7,503,814</u>
Office furniture	-	443,510	334,590
Data processing equipment	-	1,117,903	926,641
Telecommunications equipment	-	83,290	83,290
Motor vehicles	-	14,143	14,143
<b>TOTAL ASSETS</b>	<u>\$ 20,097,905</u>	<u>\$ 1,658,846</u>	<u>\$ 17,620,256</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 359,472	\$ -	\$ 221,192
Compensated absences	258,769	-	232,677
Accrued payroll	7,596	-	39,175
Default loan collections payable	1,813,552	-	1,890,180
Reinsurance fees payable	-	-	332,309
Allowance for default claims	2,190,560	-	1,940,512
Deferred guarantee fees	10,174,892	-	8,932,397
Total liabilities	<u>14,804,841</u>	<u>-</u>	<u>13,588,542</u>
<b>FUND BALANCES</b>			
Restricted investment in plant	5,293,064	-	2,674,060
Investment in plant	-	1,658,846	1,357,654
Total fund balances	<u>5,293,064</u>	<u>1,658,846</u>	<u>4,031,714</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 20,097,905</u>	<u>\$ 1,658,846</u>	<u>\$ 17,620,256</u>

The accompanying notes are an integral part of these financial statements.

OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
STATEMENTS OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 1994  
WITH COMPARATIVE TOTALS AT JUNE 30, 1993

	<u>Current Funds</u>	<u>Plant Funds</u>	<u>Totals</u>
	<u>Restricted</u>	<u>Funds</u>	<u>1994</u> <u>1993</u>
<b>REVENUES AND OTHER ADDITIONS:</b>			
Administrative cost allowance	\$ 2,124,969	\$ --	\$ 2,124,969
Default loan collections	14,970,255	--	14,970,255
Guarantee fees	3,962,989	--	3,962,989
Investment income	158,181	--	158,181
Expended for plant facilities	--	301,192	301,192
Supplemental preclaims assistance allowance	545,129	--	545,129
Other sources	197,609	--	197,609
Total revenues and other additions	<u>21,960,132</u>	<u>301,192</u>	<u>22,261,324</u>
			<u>\$ 1,506,184</u>
			<u>9,347,207</u>
			<u>3,429,111</u>
			<u>160,190</u>
			<u>276,032</u>
			<u>672,700</u>
			<u>174,927</u>
			<u>15,566,351</u>
<b>EXPENDITURES AND OTHER DEDUCTIONS:</b>			
Collection agency expenses	1,290,070	--	1,290,070
General and administrative expenses	6,294,630	--	6,294,630
Default loan collections - federal reimbursements	10,659,913	--	10,659,913
Allowance for default claims	657,473	--	657,473
Reinsurance fees	540,042	--	540,042
Total expenditures and other deductions	<u>19,341,128</u>	<u>--</u>	<u>19,341,128</u>
			<u>1,007,260</u>
			<u>5,742,015</u>
			<u>5,259,402</u>
			<u>304,019</u>
			<u>765,398</u>
			<u>13,078,114</u>
<b>NET INCREASE IN FUND BALANCE</b>	2,619,004	301,192	2,920,196
<b>FUND BALANCES, Beginning of year</b>	<u>2,674,060</u>	<u>1,357,864</u>	<u>4,031,714</u>
<b>FUND BALANCES, End of year</b>	<u>\$ 5,293,064</u>	<u>\$ 1,658,846</u>	<u>\$ 6,951,910</u>
			<u>\$ 4,031,714</u>

The accompanying notes are an integral part of these financial statements.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**1. ORGANIZATION AND PURPOSE**

The Oklahoma Guaranteed Student Loan Program (the "OGSLP"), a division of the Oklahoma State Regents for Higher Education (the "State Regents"), was established in accordance with Title 70, Section 622 eq. seq. of the Oklahoma Statutes. Pursuant to this statute, the OGSLP is responsible for the administration of the Guarantee Student Loan Program and guarantee loans by certain lending institutions to students attending postsecondary schools, in compliance with operating agreements (the "Agreements") with the U. S. Department of Education (the "USDE") pursuant to Section 428 of the Higher Education Act of 1965 (the "Act"), as periodically amended.

The Federal Guaranteed Student Loan Program (the "Program") under which the OGSLP operates was established by Congress as a means of making loans available to students attending colleges, universities, and postsecondary educational and vocational schools. The Program provides for the OGSLP to guarantee the repayment of principal and accrued interest to lenders for each eligible loan. The OGSLP is responsible for processing loans submitted for guarantee, issuing loan guarantees, providing collection assistance to lenders for delinquent loans, paying lender claims for loans in default and collecting loans on which default claims have been paid. The OGSLP also informs lenders and schools of Program regulations and encourages lender participation.

**2. SIGNIFICANT ACCOUNTING POLICIES**

The State Regents follow standards of reporting described in the American Institute of Certified Public Accountants' industry audit guide entitled Audits of Colleges and Universities. The significant accounting policies followed by the State Regents in the preparation of the financial statements for the OGSLP are described as follows.

The accompanying financial statements include only the accounts for operations and activities of the OGSLP. These financial statements are incorporated into the State Regents financial statements which include all operations and activities of the State Regents.

**Basis of Accounting**

Other than not providing for depreciation expense in the Plant Fund, the accompanying financial statements have been prepared using the accrual basis of accounting. Prior year's totals and data are presented for comparative purposes only.

**Fund Accounting**

In order to observe limitations and restrictions placed on the use of resources available to the OGSLP, such resources are classified for accounting and reporting purposes into funds according to activities and objectives specified. Separate accounts are maintained for each fund. Descriptions of these fund groups are as follows:

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Current Funds**

Current Funds are used for transactions related to the primary and support objectives of the OGSLP. OGSLP has only one fund group included in this classification, Restricted Funds, which represent resources derived from federal and state sources.

**Plant Funds**

Plant Funds are used for transactions relating to the OGSLP's investment in long-term operating assets. Plant Funds include only Investment in Plant, which represents the carrying value of equipment and motor vehicles.

Equipment and motor vehicles are stated at cost (where purchased by the OGSLP) or at estimated fair market values at the date of acquisition (where acquired other than by purchase). As permitted by generally accepted accounting principles, the OGSLP does not provide for depreciation of these assets. To the extent Current Funds are used to finance Plant Fund assets, the amounts so provided are accounted for as (a) expenditures for normal replacement of equipment and (b) other transfers.

**Accounts Receivable**

The OGSLP's accounts receivable consist primarily of funds that are due from the USDE. Major items include federal reinsurance on defaulted loans and administrative cost allowances from the USDE and guarantee fees that are collected from student borrowers at the time of loan disbursement by the lending institution.

**Administrative Cost Allowance**

Pursuant to Section 428 of the Act, the OGSLP is eligible to receive payment from the federal government of up to 1% of the total loans processed for guarantee as an administrative cost allowance to offset certain administrative expenses which the OGSLP incurs. Net loans processed for guarantee for determination of the administrative cost allowance, totaled \$208,550,078 and \$153,104,858 for the years ending June 30, 1994 and 1993, respectively.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Federal Reinsurance**

Pursuant to the Section 428 of the Act, federal reinsurance of default claims filed are paid to the OGSLP according to the following schedule:

<u>Annual Default Rate</u>	<u>Federal Reinsurance</u>
0% to less than 5%	100%
5% to less than 9%	100% of claims up to 5% and 90% of claims equal to or more than 5% but less than 9%
9% or more	100% of claims up to 5%, 90% of claims equal to or more than 5% but less than 9% and 80% of claims equal to or more than 9%

Annual default rates for purposes of the application for federal reinsurance are calculated by dividing reinsurance paid on claims filed during the year by the original amount of loans in repayment at the end of the preceding federal fiscal year. The annual default rate for the years ended September 30, 1994 and 1993, was 5.96% and 6.3%, respectively.

**Non-reinsured Defaulted Loans**

The OGSLP estimates anticipated collections on defaulted non-reinsured loans based upon historical recovery experience.

**Compensated Absences**

Employee vacation pay is accrued and vested when earned by employees. The liability and cost incurred during the year are recorded in the Current Funds as accrued vacation payable and current year expenditures, respectively.

**Reinsurance Fees Payable**

Effective October 1, 1986, a reinsurance fee is required to be remitted to the federal government based on a percentage of total loans processed for guarantee during the year according to the following schedule:

<u>Annual Default Rate</u>	<u>Federal Reinsurance</u>
0% to less than 5%	.25%
5% or more	.50%

For loans guaranteed on or after October 1, 1993, this fee has been eliminated.



**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**2. SIGNIFICANT ACCOUNTING POLICIES, continued**

**Allowance for Default Claims**

An estimated allowance for loan defaults in excess of amounts covered by federal reinsurance is made through an annual charge to operations. Actual default payments in excess of federal reinsurance are charged against the allowance as incurred.

Each year, the OGSLP's management analyzes its default experience since inception. Trends in the loan portfolio, projections of future activity and defaults as they impact reinsurance rates, and anticipated recoveries are used to determine the allowance estimate.

**Deferred Guarantee Fees**

The OGSLP collects guarantee fees from student borrowers at the time of loan disbursement by lending institutions. The OGSLP charges a 3% guarantee fee on each loan. The fees are recognized in income by the sum-of-the-years digits method over eight years, which approximates the average life of the loans. Guarantee fees are recorded as deferred income at the date loans are guaranteed.

**Income Taxes**

The OGSLP, as a unit of the State Regents, is excluded from federal income tax under Section 501 (c) (3) of the Internal Revenue Code.

**3. CASH AND INVESTMENTS**

**Cash** - At June 30, 1994, the carrying amount of the OGSLP's cash was \$925,363. The entire amount was deposited with the State Treasurer. By Oklahoma Statute, the State Treasurer is required to ensure that all state funds are either insured by Federal Deposit Insurance, collateralized by securities held by the cognizant Federal Reserve Bank, or invested in U.S. government obligations. The OGSLP's deposits with the State Treasurer are pooled with the funds of other state agencies and then, in accordance with statutory limitations, placed in banks or invested as the State Treasurer may determine.

**Investments** - The OGSLP's investments are categorized to give an indication of the level of risk assumed. At June 30, 1994, the OGSLP had investments with an aggregate book and market value of \$12,203,994. Of this total, deposits with the State Treasurer totaled \$10,633,994 and are insured and collateralized as previously mentioned. An additional \$1,570,000 of investments are insured or registered, or are securities held by the State Regents or its agent in the State Regents' name.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**4. EMPLOYEE RETIREMENT BENEFITS**

**Defined Contribution Plan**

**Plan Description** - The State Regents entered into a contract with the Teachers Insurance Annuity Association ("TIAA/CREF") in July, 1991, providing for a funded plan for employee retirement. The TIAA/CREF plan is a defined contribution plan qualified under Internal Revenue Code Section 401(a). Eligible OGSLP employees covered by the plan include those whose employment is continuous and on a 50% full-time equivalency basis or more.

TIAA/CREF participation provides an annuity in the name of the employee based upon contributions made by the OGSLP. The OGSLP's minimum contribution rate is currently 10% of base salary over \$40,000 and contributions vest as contributions are made. Employees make no contributions to this plan.

**Funding Status** - The OGSLP's total payroll for the years ended June 30, 1994 and 1993, amounted to \$2,856,618 and \$2,251,763, respectively. Total covered payroll, which refers to all compensation paid by the OGSLP to active employees covered by TIAA/CREF amounted to \$363,754 and \$314,155 in 1994 and 1993, respectively. The OGSLP contributed \$36,375 and \$31,416 in 1994 and 1993, respectively, which represents 10% of covered payroll for each year. As of June 30, 1994, there were no related party investments between TIAA/CREF and the OGSLP.

**Defined Benefit Plan**

**Plan Description** - The OGSLP, through the State Regents participate in a single-employer public employee retirement system ("PERS") through the adoption of the Supplemental Retirement Plan. Currently, no retirees of the OGSLP are receiving benefits under this plan, nor are any current employees expected to qualify for benefits under current plan provisions. Information on this plan is included in the State Regents' annual financial report.

**Cost Sharing Multiple-Employer PERS**

**Plan Description** - All full-time employees of the OGSLP are eligible to participate in the state sponsored defined benefit plan, the Oklahoma Teachers' Retirement System ("OTRS"). The OTRS was established by the State of Oklahoma in accordance with Title 70, Section 17-101 et seq., of the Oklahoma Statutes, and is a component unit of the state's financial reporting entity, reporting as a pension trust fund.

Contributions required of eligible employees are made by the OGSLP on the employees' behalf. Employee contributions amount to 6% of regular annual compensation up to a maximum of \$25,000 and, if elected, 9% of compensation that exceeds \$25,000 but that does not exceed \$40,000. Contributions made by the OGSLP on the employee's behalf are fully vested immediately.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**4. EMPLOYEE RETIREMENT BENEFITS, continued**

In addition, the State Regents make a statutory employer contribution to OTRS for each eligible employee in an amount equal to 2% of regular annual compensation not to exceed \$40,000. The State Regents' statutory contribution for each employee (plus interest allocated to the employee's account) are fully vested after 10 years of continuous service.

**Funding Status and Progress** - The OGSLP's contributions to OTRS in 1994 and 1993 were calculated using the base compensation amount of \$2,494,682 and \$2,513,302, respectively.

Contributions made by the OGSLP on behalf of its employees amounted to \$171,243 and \$169,738 in 1994 and 1993, respectively, and represented 6.86% and 6.75% of covered payroll. The OGSLP's statutory contribution amounted to \$53,266 and \$51,070 in 1994 and 1993, respectively, and represented 2.1% and 2.0% of covered payroll.

OTRS does not make separate measurements of assets and pension benefit obligations for individual employers. The pension benefit obligation of the OTRS plan, as a whole, determined as part of the latest actuarial valuation date June 30, 1993, is as follows:

Total pension benefit obligation	\$5,783,000,000
Net assets available for benefits, at cost	<u>(2,370,000,000)</u>
Unfunded pension benefit obligation	<u>\$3,413,000,000</u>

Six-year historical trend information showing OTRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1993 annual financial report of OTRS. Ten-year historical trend information is not available. As of June 30, 1994, there were no related party investments between OTRS and the OGSLP.

**5. LEASE COMMITMENTS**

The State Regents lease office space for the OGSLP from a private entity. Rental expense of approximately \$181,611 was paid by the OGSLP for the year ended June 30, 1994. Future minimum annual lease payments are \$181,611.

In addition, in September, 1989, the OGSLP entered into an agreement to lease a computer system and for services designed to perform loan processing. Standard processing charges are \$330,000 for each 12-month period following conversion, which was initially completed during December, 1989. If loan applications processed during any 12-month period exceed \$100 million, the OGSLP must pay a 0.2% fee for the amount in excess of \$100 million. The agreement is for 12 months from the date of conversion and provides for extensions of up to three years from the date of conversion. The lease agreement has expired and OGSLP is currently operating on a month to month basis, thus future payments are not reflected below.

**OKLAHOMA STATE REGENTS FOR HIGHER EDUCATION  
OKLAHOMA GUARANTEED STUDENT LOAN PROGRAM  
NOTES TO FINANCIAL STATEMENTS**

**5. LEASE COMMITMENTS, continued**

Required future minimum lease payments under the foregoing leases are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
1995	\$181,611
1996	14,882

**6. RESERVE RATIO**

The reserve ratio balance is determined by adding the following balance sheet items: Allowance for Default Claims, Deferred Guarantee Fees and Restricted Fund Balance. The sum of these items is divided by loans outstanding to calculate the reserve ratio. The 1992 reauthorization of the Act requires guarantors to meet the following minimum reserve levels:

0.5% for the fiscal year beginning 10/1/93

0.7% for the fiscal year beginning 10/1/94

0.9% for the fiscal year beginning 10/1/95

1.1% for fiscal years beginning on or after 1/1/96

As of June 30, 1994 and 1993, OGSLP's loan portfolio was \$863,273,018 and \$706,789,861 respectively, resulting in a reserve ratio of approximately 2.0% and 1.9%, respectively.

**7. CONTINGENCY**

The OGSLP has received certain federal and state grants that are subject to review and audit by grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The OGSLP's management believes that disallowances, if any, would not be material.

**OKLAHOMA STUDENT LOAN AUTHORITY**  
**Financial Statements**  
**June 30, 1994 and 1993**  
**(With Independent Auditors' Report Thereon)**

700 Oklahoma Tower  
Oklahoma City, OK 73102-5671

1600 One Williams Center  
Tulsa, OK 74172-0168

**INDEPENDENT AUDITORS' REPORT**

Trustees  
Oklahoma Student Loan Authority:

We have audited the accompanying balance sheets of the Oklahoma Student Loan Authority as of June 30, 1994 and 1993, and the related statements of operations and retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the management of the Oklahoma Student Loan Authority. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Oklahoma Student Loan Authority as of June 30, 1994 and 1993, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

*KPMG Peat Marwick LLP*

Oklahoma City, Oklahoma  
September 2, 1994



OKLAHOMA STUDENT LOAN AUTHORITY

Statements of Operations and Retained Earnings  
Years Ended June 30, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Interest income:		
Loan interest income:		
From borrowers	\$ 4,262,248	\$ 4,127,714
From U.S. Department of Education	2,625,445	2,442,073
Special allowance	513,527	595,269
Investment interest income	<u>1,130,944</u>	<u>1,661,620</u>
Total interest income	8,532,164	8,826,676
Interest expense	<u>4,692,456</u>	<u>4,913,198</u>
Net interest income	<u>3,839,708</u>	<u>3,913,478</u>
Other operating expense:		
Administrative	1,652,696	1,328,396
Servicing	806,104	656,636
Consulting and professional fees	89,481	117,854
Trustee Bank fees	<u>20,149</u>	<u>39,753</u>
Total other operating expense	2,568,430	2,142,639
Net income before extraordinary item	1,271,278	1,770,839
Loss on extinguishment of debt (note 7)	<u>0</u>	<u>307,991</u>
Net income	1,271,278	1,462,848
Retained earnings, beginning of year	<u>27,148,914</u>	<u>25,686,066</u>
Retained earnings, end of year	\$ <u>28,420,192</u>	\$ <u>27,148,914</u>

See accompanying notes to financial statements.



OKLAHOMA STUDENT LOAN AUTHORITY

Statements of Cash Flows  
Years Ended June 30, 1994 and 1993

	<u>1994</u>	<u>1993</u>
Cash flows from operating activities:		
Net income	\$ 1,271,278	\$ 1,462,848
Adjustments to reconcile net income to net cash provided (used) in operating activities:		
Depreciation, amortization and financing costs included in extinguishment loss	210,645	368,005
Interest expense	4,692,456	4,913,198
Investment interest income	(1,130,944)	(1,661,620)
Decrease (Increase) in assets:		
Loans, net	(7,112,776)	1,783,128
Receivable from loans sold to Student Loan Marketing Assoc.	0	628,888
Receivable from USDE	155,239	(9,876)
Accrued interest receivable	1,924,353	274,285
Increase (Decrease) in liabilities:		
Accounts payable and other accrued expenses	82,676	204,396
Insurance payable	<u>6,076</u>	<u>11,695</u>
Net cash provided by operating activities	<u>99,003</u>	<u>7,974,947</u>
Cash flows from non capital financing activities:		
Advances on notes payable	13,365,000	12,785,000
Advances on bonds payable	0	41,670,000
Payments on notes payable	(16,422,659)	(71,251,809)
Payments on bonds payable	(745,000)	(16,745,000)
Interest paid on bonds and notes	(6,376,710)	(8,122,180)
Other payments for non capital financing activity	<u>(21,304)</u>	<u>(398,205)</u>
Net cash used in non capital financing activities	<u>(10,200,673)</u>	<u>(42,062,194)</u>

(Continued)

OKLAHOMA STUDENT LOAN AUTHORITY

Statements of Cash Flows  
 Years Ended June 30, 1994 and 1993  
 (Continued)

	<u>1994</u>	<u>1993</u>
Cash flows from investing activities:		
Purchases of equipment and other depreciable assets	\$ (93,430)	\$ (71,475)
Proceeds from maturity of investments	42,078,636	102,164,423
Purchases of investments	(33,272,513)	(70,364,513)
Investment interest received	<u>1,150,883</u>	<u>2,203,653</u>
Net cash provided by investing activities	<u>9,863,576</u>	<u>33,932,088</u>
Net decrease in cash	(238,094)	(155,159)
Cash at beginning of year	<u>387,477</u>	<u>542,636</u>
Cash at end of year	<u>\$ 149,383</u>	<u>\$ 387,477</u>

See accompanying notes to financial statements.

# OKLAHOMA STUDENT LOAN AUTHORITY

## Notes to Financial Statements

June 30, 1994 and 1993

### (1) Nature of the Program

The Oklahoma Student Loan Authority (the Authority) was created as an express trust under applicable Oklahoma statutes and a Trust Indenture dated August 2, 1972, with the State of Oklahoma (the State) accepting the beneficial interest therein. The Authority is a component trust unit of the State and is included in the financial statements of the State as a part of the Enterprise Fund. Enterprise funds are used to account for the operations and financial position of a governmental entity that are financed and operated in a manner similar to private enterprise.

The purpose of the Authority is to provide loan funds to qualified persons at participating post secondary educational institutions. Generally, borrowers are Oklahoma residents or are students in Oklahoma higher education institutions. The student loans made by the Authority under the Federal Higher Education Act of 1965, as amended, include Federal Stafford (Stafford) Loans, Unsubsidized Stafford Loans, Federal Supplemental Loans for Students (SLS) and Federal Parent Loans for Undergraduate Students (PLUS). These Federal Family Education Loan (FFEL) Program loans are guaranteed 100% (98% guaranteed for loans with first disbursement on or after October 1, 1993) by the State of Oklahoma Guaranteed Student Loan Program (State Guarantee Agency) and reinsured by the United States Department of Education (USDE), or by another guarantor approved by the USDE operating on a national level (Guarantee Agencies). The Authority also made Health Education Assistance Loans (HEAL) until May 1993, which are insured 100% by the United States Department of Health and Human Services (HHS). The loans made by the Authority prior to March, 1976, are insured 100% by USDE under the Federal Insured Student Loan (FISL) Program.

The Authority also provides a secondary market for Federal Family Education Loan Program loans for Oklahoma financial institutions by purchasing qualified loans from these institutions.

### (2) Summary of Significant Accounting Policies

The financial statements of the Authority included herein reflect the combined assets, liabilities, retained earnings, and changes therein for the FISL Program, the FFEL Program, and the HEAL Program.

#### Basis of Accounting

The Authority has adopted the accrual basis of accounting for reporting purposes. Under the accrual basis of accounting,

## OKLAHOMA STUDENT LOAN AUTHORITY

### Notes to Financial Statements, Continued

revenues are recognized when earned and expenses are recorded when incurred.

#### Accounts of the Authority

The accounts of the Authority are organized on the basis of individual funds as prescribed by the "Oklahoma Student Loan Act" (Act) and terms of various debt obligations. The various accounts assigned to each fund could include any of the following depending upon the terms of the related debt obligation: Principal Account, Interest Account, Student Loan Account, Debt Service Reserve Account, Investment Earnings Account, Rebate Account and General Investment Account. The Authority is in compliance with all terms of the various debt obligations and the Act with regards to the maintenance of required accounts and the funding level of such accounts.

#### Allowance for Loan Loss

The provision for loan loss is based on the combination of two calculations. The first calculation is based on the amount and aging of rejected claims for payment on defaulted loans. Rejection of a claim by a Guarantee Agency will occur when the Authority does not perform certain due diligence procedures as prescribed by USDE. The rejected claims are referred to various cure and recovery procedures before they are written-off as uncollectible. The second calculation is based on applying the Authority's historical rate of account write-off to the current balance of outstanding student loans. Student loans are written-off when they are deemed uncollectible and charged against the allowance upon such determination. Any subsequent collection or recovery on an account written-off as uncollectible is credited to the allowance.

#### Investments

Investments, consisting of repurchase agreements and certain government obligations, are recorded at amortized cost. Applicable Oklahoma statutes authorize certain types of investments the Authority can utilize. As of June 30, 1994 and 1993, the Authority was in compliance with these investment requirements.

#### Interest Income

Interest is earned from the USDE, the borrowers on the various types of student loans and from investments. The USDE makes two types of interest payments to the Authority. One is for the interest on Stafford loans when the borrower is not currently required to make principal and interest payments under the terms of the loan. The other type of interest payment from the USDE is "Special Allowance Payments" which

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

are determined quarterly based upon the average rate established in the auction of the 91-day U.S. Treasury bills relative to the yield of the student loan.

Income Taxes

The Authority, as a State beneficiary trust, is exempt from state and federal income taxes under Internal Revenue Code section 115, although unrelated business income may be subject to income taxes under the Internal Revenue Code.

Equipment and Other Assets

The Authority capitalizes expenditures for equipment, system development, and other long-term assets. Depreciation and amortization is calculated primarily on a straight-line basis of five to ten years. Maintenance of equipment and other assets is expensed as incurred.

Cash and Cash Equivalents

The Authority only considers cash in demand deposit accounts and cash held by the State Treasurer on the Authority's behalf to be cash for purposes of the statement of cash flows.

(3) Investments

The Authority invests its idle cash in repurchase agreements, U.S. Treasury securities and U.S. Treasury based mutual funds. Cash is insured by the Federal Deposit Insurance Corporation. Repurchase agreements are collateralized by U.S. government agency securities at 100%. Temporary investments are composed of investments in U.S. Treasury based mutual funds.

The General Investment Accounts are investments of the Authority that are not pledged as collateral for any of the various debt obligations of the Authority. These unrestricted investments consist of the following at June 30, 1994 and 1993:

	<u>1994</u>	<u>1993</u>
U.S. government securities	\$3,519,882	\$ 1,928,479
Temporary investments	<u>1,485,713</u>	<u>8,309,389</u>
	<u>\$5,005,595</u>	<u>\$10,237,868</u>

The market values of securities in the General Investment Account at June 30, 1994 and 1993 were approximately \$4,930,000 and \$10,240,000, respectively.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

Investments held by the State Treasurer, as trustee, and by the Trustee Bank consist of the following at June 30, 1994 and 1993:

	<u>State Treasurer</u>		<u>Trustee Bank</u>	
	<u>1994</u>	<u>1993</u>	<u>1994</u>	<u>1993</u>
U.S. Treasury securities	4,419,162	4,446,558	0	0
Repurchase agreements	0	0	2,500,200	2,500,200
Temporary investments	<u>92,746</u>	<u>843,309</u>	<u>8,796,511</u>	<u>11,592,402</u>
	<u>\$4,511,908</u>	<u>\$5,289,867</u>	<u>\$11,296,711</u>	<u>\$14,092,602</u>

The market values of securities held by the Trustee Bank at June 30, 1994 and 1993 were approximately \$11,300,000 and \$14,100,000, respectively. The market values of securities held by the State Treasurer at June 30, 1994 and 1993 were approximately \$4,510,000 and \$5,630,000, respectively. Gross unrealized gains or (losses) from U.S. Treasury securities at June 30, 1994 and 1993, were approximately \$(80,000) and \$350,000, respectively. Approximately \$6,340,000 of investments are in U.S. Treasury Notes and will be maturing in fiscal years 1997 and 1998. All other investments mature within fiscal year 1994.

Certain cash, investments and loans receivable of the Authority are restricted and serve as collateral for the various obligations of the Authority. In addition, if the Authority does not repay revenue notes payable to the Student Loan Marketing Association (SLMA), it would give rise to a general obligation of the Authority to repay SLMA. The terms of the resolutions and other financing documents of the bonds and the notes payable call for specific identification of the assets securing those obligations, as follows (see notes 4, 5, 6 and 7):

OKLAHOMA STUDENT LOAN AUTHORITY  
Notes to Financial Statements - Continued  
June 30, 1994

	SLMA	1992	1993	General	Total
Assets	Notes Payable	Series A&B Bonds Payable	Liberty Bank Note Payable	Funds	
Cash and Investments	\$ 2,607,376	\$ 5,637,870	\$ 331,365	\$12,386,986	\$ 20,963,597
Loans, net of allowance (a)	32,668,679	36,914,355	14,175,797	12,502,644	96,261,475
Other assets (b)	<u>1,751,258</u>	<u>2,161,297</u>	<u>94,915</u>	<u>(1,081,955)</u>	<u>2,925,515</u>
Total Assets	<u>37,027,313</u>	<u>44,713,522</u>	<u>14,602,077</u>	<u>23,807,675</u>	<u>120,150,587</u>
Liabilities and Retained Earnings					
Accounts payable, insurance payable and other accrued expenses (b)	1,947,166	987,353	142,470	(2,233,803)	843,186
Accrued interest payable	763,201	814,912	170,799	9,577	1,758,489
Notes and bonds payable	<u>33,198,720</u>	<u>41,670,000</u>	<u>14,250,000</u>	<u>10,000</u>	<u>89,128,720</u>
Total Liabilities	<u>35,909,087</u>	<u>43,472,265</u>	<u>14,563,269</u>	<u>(2,214,226)</u>	<u>91,730,395</u>
Retained earnings, beginning of year	898,641	1,149,384	(21,586)	25,122,475	27,148,914
Equity transfers	<u>149,310</u>	<u>68,807</u>	<u>(2,000)</u>	<u>(216,117)</u>	<u>0</u>
Adjusted retained earnings, beginning of year	<u>1,047,951</u>	<u>1,218,191</u>	<u>(23,586)</u>	<u>24,906,358</u>	<u>27,148,914</u>
Current operations					
Interest and other revenues	3,013,270	3,356,772	613,625	1,548,497	8,532,164
Less: Interest expense	(1,856,082)	(2,437,944)	(398,430)	0	(4,692,456)
Less: Operating expenses	<u>(1,086,913)</u>	<u>(895,762)</u>	<u>(152,801)</u>	<u>(432,954)</u>	<u>(2,568,430)</u>
Net income	<u>70,275</u>	<u>23,066</u>	<u>62,394</u>	<u>1,115,543</u>	<u>1,271,278</u>
Retained earnings, end of year	<u>1,118,226</u>	<u>1,241,257</u>	<u>38,808</u>	<u>26,021,901</u>	<u>28,420,192</u>
Total Liabilities and Retained Earnings	<u>\$37,027,313</u>	<u>\$44,713,522</u>	<u>\$14,602,077</u>	<u>\$23,807,675</u>	<u>\$120,150,587</u>

(a) Loans, net of allowance in the General Fund, includes student loans financed by Authority equity funds. Additionally, this amount includes monies received from borrowers, but not identified and distributed to the other funds by June 30, 1994.

(b) Negative assets and liabilities reported in the General Funds are related to various interfund payable and receivable accounts.

OKLAHOMA STUDENT LOAN AUTHORITY  
Notes to Financial Statements - Continued  
June 30, 1993

	SIMA Notes Payable	1992 Series A&B Bonds Payable	1993 Liberty Bank Note Payable	(a) General Funds	Total
<b>Assets</b>					
Cash and Investments	\$ 2,305,136	\$ 9,742,289	\$ 78,151	\$17,882,238	\$ 30,007,814
Loans, net of allowance (b)	49,250,432	32,532,127	855,538	6,510,602	89,148,699
Other assets (c)	3,970,525	2,039,349	9,192	(898,109)	5,120,957
Total Assets	<u>55,526,093</u>	<u>44,313,765</u>	<u>942,881</u>	<u>23,494,731</u>	<u>124,277,470</u>
<b>Liabilities and Retained Earnings</b>					
Accounts payable, insurance payable and other accrued expenses (c)	2,413,637	672,677	76,099	(2,407,979)	754,434
Accrued interest payable	2,592,436	821,703	3,368	25,236	3,442,743
Notes and bonds payable	49,621,379	41,670,000	885,000	755,000	92,931,379
Total Liabilities	<u>54,627,452</u>	<u>43,164,380</u>	<u>964,467</u>	<u>11,627,743</u>	<u>97,128,556</u>
Retained earnings, beginning of year	2,222,572	0	0	23,463,494	25,686,066
equity transfers	<u>(1,906,852)</u>	<u>1,158,890</u>	<u>(16,071)</u>	<u>764,033</u>	<u>0</u>
Adjusted retained earnings, beginning of year	<u>315,720</u>	<u>1,158,890</u>	<u>(16,071)</u>	<u>24,227,527</u>	<u>25,686,066</u>
Current operations					
Interest and other revenues	4,612,937	2,018,571	5,085	2,190,083	8,826,676
Less: Interest expense	(2,692,982)	(1,514,376)	(3,368)	(702,472)	(4,913,198)
Less: Operating expenses (d)	<u>(1,337,034)</u>	<u>(513,700)</u>	<u>(7,232)</u>	<u>(592,664)</u>	<u>(2,450,630)</u>
Net income	582,921	(9,505)	(5,515)	894,947	1,462,848
Retained earnings, end of year	<u>898,641</u>	<u>1,149,385</u>	<u>(21,586)</u>	<u>25,122,474</u>	<u>27,148,914</u>
Total Liabilities and Retained Earnings	<u>\$55,526,093</u>	<u>\$44,313,765</u>	<u>\$ 942,881</u>	<u>\$23,494,731</u>	<u>\$124,277,470</u>

- (a) The assets and liabilities of the Bond Series 1980 and Prior Fund were transferred to the General Fund.  
The Authority authorized redemption of these bonds (Note 7) during Fiscal Year 1993.
- (b) Loans, net of allowance in the General Fund, includes student loans financed by Authority equity funds.  
Additionally, this amount includes monies received from borrowers, but not identified and distributed to the other funds by June 30, 1994.
- (c) Negative assets and liabilities reported in the General Funds are related to various interfund payable and receivable accounts.
- (d) Operating expenses include loss on extinguishment of debt in the amount of approximately \$308,000 (note 7).



OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

(4) Trust Funds Held By Trustee Bank (See Note 3)

Boatmen's First National Bank of Oklahoma is the trustee and paying agent for the Authority. Separate trust funds are maintained as prescribed by various debt obligations. A listing of the various accounts is included in Note 2 - Accounts of the Authority.

(5) Loans

The Authority originates, purchases and holds various types of student loans as described in Note 1, including subsidized Stafford, unsubsidized Stafford, SLS, PLUS, and HEAL.

The terms of these loans, which vary on an individual basis depending upon loan type and the date the loan was originated, generally provide for repayment on monthly installments of principal and interest over a period of up to ten years. On subsidized and unsubsidized Stafford loans, principal payments by the borrower are deferred while the borrower is enrolled on at least a half-time basis and for a six month grace period thereafter. On SLS and PLUS loans, the borrower is responsible for principal payments within 60 days from the date the loan is originated unless an authorized deferment is obtained by the borrower. On HEAL loans, the borrower is responsible for the principal payments at the conclusion of a nine month grace period which starts when the borrower graduates or ceases medical education. The Authority sells the HEAL loans to SLMA during this grace period.

Interest rates on student loans, as set by USDE, range from 5.55% to 10% depending upon the type and date of origination of the individual loan. The interest accrued on the subsidized Stafford loans is paid by USDE while the student is enrolled on at least a half-time basis and for a six month grace period thereafter. The borrowers are responsible for paying interest on the unsubsidized Stafford, SLS, PLUS, and HEAL loans which starts accruing on the date the loan is originated.

As stated in Note 1, all loans are guaranteed or insured as to principal and accrued interest by USDE, HHS, the State Guarantee Agency or other national guarantee agencies. The guarantor receives fees which range from 3% to 8% of the gross loan amounts for their services. The fees are withheld from the disbursements to the borrower and remitted to the guarantor. In order for the loans to be or remain guaranteed, certain procedures must be followed and due diligence requirements in collections and servicing must be met. As of June 30, 1994 and 1993, respectively, approximately \$328,000 and \$253,000 of loans were no longer

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

considered as being guaranteed. The Authority's loan servicer for the Stafford loans is contractually obligated to reimburse or perform procedures which restore the guarantee on non-guaranteed Stafford loans (Note 11).

The Authority is required by USDE to withhold and remit to USDE the following percentages of principal amounts of FFEL Program loans: PLUS, SLS and Stafford-subsidized 5%; unsubsidized Stafford 6.5%.

Loan origination costs are capitalized when the loan is made and are then amortized, using the interest method, over the estimated economic life of the loan. The capitalized loan origination costs, net of accumulated amortization, at June 30, 1994 and 1993, were approximately \$302,000 and \$240,000, respectively.

(6) Notes Payable

Notes payable at June 30, 1994 and 1993 consist of the following:

	<u>1994</u>	<u>1993</u>
\$15,000,000 Variable Rate Revenue Note, dated August 10, 1987, modified as of October 10, 1989, payable to SLMA; the rate is adjusted weekly based on the bond equivalent rate of the 91-day U.S. Treasury bill auction; the interest rates as of June 30, 1994 and 1993 were 4.61% and 3.83%, respectively; principal is due at maturity, October 10, 1999; and all advances made on the note are secured by the specific Stafford loans financed.	5,975,000	6,975,000
\$25,000,000 Variable Rate Revenue Note, dated July 29, 1988, payable to SLMA; principal and interest are due on the maturity date of July 29, 1995; the interest rate is adjusted annually based on the bond equivalent rate of 52-week U.S. Treasury bills auction; the interest rates for the years ended June 30, 1993 was 4.56%;		

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

	<u>1994</u>	<u>1993</u>
all advances made on the note are secured by the specific SLS and PLUS loans financed. The 1988 Revenue Note was paid in full through the proceeds of SLS and PLUS loan sales in fiscal year 1994.	0	8,306,616
 \$75,000,000 Variable Rate Revenue Note, dated August 28, 1990, payable to SLMA; interest is payable quarterly; the interest rate is adjusted weekly based on the bond equivalent rate of the 91-day U.S. Treasury bill auction; the interest rates as of June 30, 1994 and 1993 were 5.46% and 4.27%, respectively; principal is due monthly as payments are received from the borrowers with any remaining balance due on August 28, 2005. Principal amounts currently collected and payable to SLMA are approximately \$279,000 and \$634,000 as of June 30, 1994 and 1993, respectively; all advances made on the notes are secured by the specific Stafford loans financed. Approximately \$30,600,000 of advances are available as of June 30, 1994.	 23,475,218	 27,925,962
 \$10,000,000 Variable Rate Revenue Note, dated January 17, 1992, payable to SLMA; principal and interest are due on the maturity date of January 17, 2000; the interest rate is adjusted weekly based on the bond equivalent rate of the 91-day U.S. Treasury bill auction; the interest rates as of June 30, 1994 and 1993 were 5.04% and 4.26%, respectively; advances on the note are secured by the specific HEAL loans being financed.	 3,748,502	 6,413,801

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

	<u>1994</u>	<u>1993</u>
<p>\$30,000,000    Substitute    Taxable Variable Rate Revenue Note, Series 1993L, dated April 29, 1993, modified as of June 20, 1994, payable to Liberty Bank and Trust Company of Oklahoma City, National Association. Interest is payable quarterly at a rate which is adjusted weekly based on the bond equivalent rate of the 91-day U.S. Treasury bill auction. The interest rates as of June 30, 1994 and 1993 were 5.31% and 4.12%, respectively. Principal is due on the maturity date of April 29, 1996 and the maturity date is subject to extension at the lender's approval to April 29, 2008. All advances made on the note are secured by specific FFEL Program loans financed. Approximately \$15,750,000 of advances are available as of June 30, 1994.</p>	<p><u>14,250,000</u></p>	<p><u>885,000</u></p>
	<u>\$47,448,720</u>	<u>\$50,506,379</u>

Pursuant to financing agreements and loan sale agreements, SLMA will purchase certain SLS, PLUS and HEAL loans when they reach repayment status. The Authority has an obligation to repurchase the loans should SLMA's collection efforts determine any Authority representations or warranties with regards to the loans to be materially incorrect. The amount of loans repurchased by the Authority was approximately \$18,000 and \$32,000 for the fiscal years ended June 30, 1994 and 1993. The total amount of loans sold to SLMA was approximately \$10,700,000 and \$8,400,000 for the years ended June 30, 1994 and 1993.

(7) Bonds Payable

The Authority has at various times issued bonds for the purpose of funding student loans. Under various circumstances, and at various times, each bond series is callable at the option of the Authority, in whole or in part, on any business day. The Authority's obligation for the bonds is secured by specific FFEL Program loans financed.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

The Authority is in compliance with all significant bond covenants, which primarily consist of maintaining required amounts of collateral in each bond's trust estate.

Bonds payable as of June 30, 1994 and 1993 consist of the following:

	<u>1994</u>	<u>1993</u>
Oklahoma Student Loan Authority:		
5.25% Series 1978*		
due August 1, 1993	\$ 0	\$ 350,000
5.40% Series 1979*		
due August 1, 1994	0	395,000
6.85% Series 1980*		
due August 1, 1995	10,000	10,000
4.65%-6.70% Series 1992A		
due serially through		
9-1-05	32,680,000	32,680,000
5.35%-5.55% Series 1992B		
due serially through		
9-1-98	<u>8,990,000</u>	<u>8,990,000</u>
	<u>\$41,680,000</u>	<u>\$42,425,000</u>

\*The Authority authorized redemption of the Series 1978, Series 1979 and Series 1980 Bonds during Fiscal Year 1993. The amounts listed above for these series represent bonds which have not been presented to the Paying Agent for redemption by June 30, 1994 and 1993, respectively.

Fiscal year debt service requirements to maturity or redemption date are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1995	\$ 2,010,000	2,410,000	4,420,000
1996	2,000,000	2,300,000	4,300,000
1997	6,230,000	2,090,000	8,320,000
1998	5,735,000	1,765,000	7,500,000
1999	4,865,000	1,475,000	6,340,000
2000-2006	<u>20,840,000</u>	<u>4,170,000</u>	<u>25,010,000</u>
	<u>\$ 41,680,000</u>	<u>\$ 14,210,000</u>	<u>\$ 55,890,000</u>

In 1993, a portion of the Series 1992 Bonds was used to extinguish the Authority's obligations under the Series 1991 Notes and 1984 Note. The resulting loss from extinguishment consisted of prepayment penalties and expensing the remaining capitalized financing costs.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

(8) Retirement Plan

Certain employees of the Authority participate in the Teachers' Retirement System of Oklahoma (TRS), a contributory retirement plan. A summary of the Authority's participation in TRS for 1994 and 1993 is as follows:

	<u>1994</u>	<u>1993</u>
Total Authority payroll	\$918,550	\$917,084
Payroll for TRS participants	560,000	680,000
Employee contribution rate on first \$25,000 of payroll	6%	6%
Total employee contributions on first \$25,000 of payroll	21,300	29,000
Employer contribution rate on optional participation (payroll of \$25,000 to \$40,000)	9%	11%
Total employer contribution on optional participation	10,200	10,000
Authority's statutory surcharge contribution rate	2%	2%
Total statutory surcharge contribution	9,400	11,000

Employees are eligible for retirement benefits when age and years of creditable Oklahoma service reach a certain level. The normal retirement benefit is equal to 2% of final compensation for each year of creditable service. Benefits fully vest upon reaching 10 years of credited Oklahoma service.

TRS is a multiemployer cost sharing plan provided by the State of Oklahoma. The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess TRS's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among Public Employee Retirement Systems and employers. TRS does not make separate measurements of assets and pension benefit obligations for individual employers participating in the plan. At June 30, 1993, the pension benefit obligation for TRS as a whole was \$5.8 billion with net assets (valued at cost) available for benefit of \$2.4 billion leaving an unfunded benefit obligation of approximately \$3.4 billion. The Authority's contributions represented less than 1% of

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

total contributions from all participating entities. The pension benefit obligation data as of June 30, 1994 is not yet available.

(9) Commitments and Contingencies

The Authority conducts certain programs subject to audit by various federal and state agencies. Amounts questioned as a result of audits, if any, may result in refunds to these governmental agencies.

(10) Student Loan Legislation

Federal legislation enacted in 1993 provided for numerous material changes to the FFEL Program. This legislation provides for a variety of changes which will affect significantly the future operations of the Authority, including without limitation, the effects listed below.

- A. The implementation beginning July 1, 1994 of a Federal Direct Student Loan Program (FDSLPL) in which eligible institutions of higher education can apply to originate Federal Direct Student Loans on behalf of the federal government. FDSLPL is an alternative to and in competition with FFELP which the Authority participates in as an eligible lender. FDSLPL has a 5 year phase-in period. The legislation calls for approximately 5% of the federally insured student loans to be originated by FDSLPL in the 1994-95 academic year and that percentage is scheduled to increase to 60% by the fifth year of the program.
- B. The minimum guaranty level for guarantees on FFELP loans for which the first disbursement occurs on or after October 1, 1993 was reduced to 98% from 100% of the principal amount.
- C. The loan interest yield to holders, including the Authority, on FFELP loans disbursed on or after July 1, 1995 will be reduced by 0.6% on loans when USDE pays the interest thereon.

(11) Subsequent Events

The Authority has expanded its operations to include internal loan servicing on all student loans effective July 1, 1994. With this expansion, the obligation of the Authority's loan servicer for the Stafford loans (Note 5) pertains only to due diligence and loan servicing functions through and including June 30, 1994. Additionally, in July 1994, the Authority started servicing student loans for another Oklahoma lender participating in the FFEL Program.

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**Oklahoma Student Loan Authority  
Student Loan Revenue Bonds, Series 1994A**

**CASH FLOW ASSUMPTIONS**

The following presents the Authority's principal assumptions used in the preparation of its cash flow projections for the Bonds and the structuring of the stated maturities.

**Factors Affecting Cash Flow Sufficiency and Timing**

The projections are based upon an analysis of the Authority's present portfolio of student loans in the Trust Estates for the Bonds, including the Series 1994A Bonds, and reflect what are believed to be reasonable assumptions regarding the current and future composition of and yield on the expected Eligible Loan portfolio in the Trust Estates for the Bonds, including the Series 1994A Bonds, the cost of servicing those Eligible Loans, the rate of return on moneys invested in the various Funds and Accounts under the Bond Resolution and the occurrence of future events and conditions. There is no assurance that the assumptions used will in fact be realized. There is no assurance, for example, that interest and principal payments from the Eligible Loans in the Trust Estates for the Bonds, including the Series 1994A Bonds, will be received as projected, that the reinvestment rates assumed on the Balances in various Funds will be realized, or that Interest Benefits and Special Allowance Payments will be received in the amounts and at the times projected. Moreover, future events over which the Authority has no control may materially adversely affect the Authority's actual receipt of pledged Revenues and Recoveries of Principal. See the caption "INVESTMENT CONSIDERATIONS - Factors Affecting Cash Flow Sufficiency" herein.

Receipt of Revenues and Recoveries of Principal on Eligible Loans in the Trust Estates for the Bonds, including the Series 1994A Bonds, may be accelerated due to various factors, including among other things: (i) default claims or claims due to the disability, death or bankruptcy of the borrowers; (ii) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Authority's student loan portfolio; (iii) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Authority's student loan portfolio; and (iv) economic conditions that induce borrowers to refinance or prepay their loans prior to maturity. Eligible lenders, including the Authority, and the USDE under its competing William D. Ford Federal Direct Loan Program, may make consolidation Loans to borrowers for the purpose of retiring certain borrowers' existing loans under various federal higher education loan programs. To the extent that Eligible Loans in the Trust Estates for the Bonds, including the Series 1994A Bonds, are prepaid with Consolidation Loans, the Authority will realize payment of such loans earlier than projected.

Receipt of Revenues and Recoveries of Principal on Eligible Loans in the Trust Estates for the Bonds, including the series 1994A Bonds, moreover, may be delayed due to various factors, including among other things: (i) borrowers entering deferment periods due to a return to school or other eligible conditions; (ii) forbearance being granted to borrowers; (iii) loans becoming delinquent for periods longer than assumed; (iv) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Authority's student loan portfolio; and (v) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Authority's student loan portfolio.

When structuring specific stated maturities, the Authority assumed no Eligible Loan defaults. Based on its experience, however, the Authority expects that defaults will occur and, for purposes of the cash flow projections, has assumed a default rate of 17.5% for the first year Eligible Loans enter repayment, a default rate of 5% for the second year of repayment, a default rate of 2.5% for the third year of repayment and a default rate of 0% for each year

thereafter. These default rates are significantly greater than the Authority's expectation for defaults. Defaults on Eligible Loans are assumed to be reimbursed at a rate of 100% (or at a rate of 98% on loans first disbursed on or after October 1, 1993, from the State Guarantee Agency or other Guarantor. Although the State Guarantee Agency or other Guarantor is obligated to make payments of 98% or 100% to the Authority and other lenders, the State Guarantee Agency or other Guarantor must then rely on reimbursement from the secretary of the USDE. The ability of the State Guarantee Agency or other Guarantor to meet its claims payment obligations may be impaired if claim payments exceed expectations or if its Guarantee Fund is inadequate. See the captions "INVESTMENT CONSIDERATIONS - Financial Status of Guarantors" and "GUARANTEE AGENCIES" and "Appendix C - THE STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL STATEMENT INFORMATION" herein.

#### Changes in Federal Law

There can be no assurance that relevant federal laws, including the Higher Education Act, will not be changed in a manner that may adversely affect the receipt of funds by the Authority. See the captions "INVESTMENT CONSIDERATIONS - Changes in Federal Law" and "THE AUTHORITY - Lending Programs" and Appendix B - "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein.

#### Eligible Loan Portfolio Assumptions

As of September 30, 1994, the current principal balance of Eligible Loans in the Trust Estate for the Series 1992A&B Bonds was \$35,212,554.

The Series 1994A Bonds will be issued on a parity with the Series 1992A&B Bonds. The Authority expects to finance a current principal balance of Eligible Loans of approximately \$28,631,093 from the proceeds of the Series 1994A Bonds. In addition, the Authority will contribute Eligible Loans Investment Securities or moneys with a current balance at least equal to \$4,585,000 to the Trust Estate for the Series 1994A Bonds as overcollateralization and additional security for the Bonds.

The Eligible Loans in the Trust Estate for the Bonds, including the Series 1994A Bonds, are assumed to have approximately the following composition:

<u>Education Loan Type</u>	<u>Series 1992 A&amp;B Bonds</u>	<u>Series 1994A Bonds</u>
Stafford (subsidized)	99.5%	59.9%
Unsubsidized Stafford	0.2	9.6
SLS	0.1	21.0
PLUS	0.2	9.5
Consolidation	N/A	N/A
Total	<u>100.0%</u>	<u>100.0%</u>
 <u>Loan Status</u>		
In-School	12.5%	65.0%
Grace	8.0	10.0
Deferment	8.8	1.2
Repayment-Current	68.2	22.8
Claims	2.5	1.0
Total	<u>100.0%</u>	<u>100.0%</u>
 <u>School Type</u>		
University - 4-Year	81.1%	71.0%
College - 2 year	4.9	7.0
Proprietary	14.0	22.0
Total	<u>100.0%</u>	<u>100.0%</u>

Assumed Average Repayment Term:	87.4 months	120 months
Assumed Average Borrower Indebtedness:	\$4,246	\$4,000

**Other Assumptions**

The 91-day T-Bill rate is assumed to be 5.50% and the 1-year T-Bill rate is assumed to be 6.50%.

For loans assumed to be originated after October 1, 1992: (i) PLUS and SLS loans are assumed to yield the T-Bill Rate plus 3.10%; (ii) Consolidation loans are assumed to have a weighted average return of 9.00% per annum; (iii) post October 1, 1992 Stafford Variable Rate Loans are assumed to yield (interest plus Special Allowance Payments) the T-Bill Rate plus 3.10%; and (iv) post July 1, 1995 Stafford Variable Rate Loans are assumed to yield (interest plus Special Allowance Payments) the T-Bill Rate plus 2.50% during the In-School, Grace or Deferral periods and the T-Bill Rate plus 3.10% at all other times.

Lags of 30 days are assumed on all student loan principal and interest payments from borrowers, and lags of 60 days are assumed on all federal interest subsidy payments and Special Allowance Payments. Lags of 360 days are assumed on all default reimbursements.

**Program Expenses**

The Authority has estimated the administrative budget relating to its student loan portfolio (including the Eligible Loans the Trust Estates for the Bonds, including the Series 1994A Bonds, based on past experience. The Authority's total administrative budget is allocated among its various bond issues based on the outstanding principal amount of student loans held under each financing, the number of student loans acquired, and the number of financings outstanding. The cash flow assumptions assume such allocation to be 0.50% per annum of outstanding student loan principal in the Trust Estates for the Bonds, including the Series 1994A Bonds.

The cash flow assumptions assume servicing fees paid to the Authority of \$1.75 per borrower per month for in-school status loans; \$2.90 per borrower per month for grace status loans; \$3.25 per borrower per month for repayment, deferral or claim status loans; \$4.00 per borrower per month for delinquent repayment status loans; and a one time \$30.00 claim filing charge. These fees are inflated 3% annually. The cost of providing such servicing may be higher than projected.

**Investment Rates**

Balances in the Debt Service Reserve Fund for the Series 1992A&B Bonds are assumed to be invested pursuant to that Collateralized Investment Agreement at a rate of 6.40% per annum. All other funds in the Trust Estate for the Series 1992A&B Bonds are assumed to be invested at the T-Bill assumption as detailed above.

Balances in the Debt Service Reserve Fund for the Series 1994A Bonds are assumed to be invested in a collateralized Investment Agreement at an assumed interest rate that is 69 basis points above the blended annualized Auction Rate on the Series 1994A Bonds. Float Balances in the Interest and Principal Accounts of the Sinking Fund for the Series 1994A Bonds are assumed to be invested in a collateralized Investment Agreement at an assumed interest rate that is 69 basis points above such Auction Rate.

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Oklahoma Student Loan Authority  
Student Loan Revenue Bonds, Series 1994A

**AUCTION PROCEDURES FOR THE AUCTION RATE SECURITIES**

If not otherwise defined below, capitalized terms used in this Appendix have the meanings given such terms in "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" hereto.

**AUCTION AGENT MEMBERS**

**Existing Holders and Potential Holders**

Agent Members in each Auction will include:

A. "Existing Holders" which means, for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day immediately preceding such Auction, and, for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a Beneficial Owner of Auction Rate Securities subject to that Auction; and

B. "Potential Holders" which means any Person (including an Existing Holder) that is a Broker-Dealer for purposes of dealing with the Auction Agent, and a potential beneficial owner, for purposes of dealing with a Broker-Dealer, who may be interested in acquiring Auction Rate Securities (or, in the case of an Existing Holder, an additional principal amount of Auction Rate Securities).

**Agreement to Participate in Auctions**

By purchasing Auction Rate Securities, whether in an Auction or otherwise, each prospective purchaser of Auction Rate Securities or its Broker-Dealer must agree and will be deemed to have agreed:

A. To participate in Auctions on the terms described in the Series 1994A Supplemental Resolution;

B. So long as the beneficial ownership of the Auction Rate Securities is maintained in Book Entry form, to sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or a Sell Order (each as defined below) in an Auction or through a Broker-Dealer, provided that in case of all transfers other than those pursuant to an Auction, the Existing Holder of Auction Rate Securities so transferred, its Agent Member or Broker-Dealer, must advise the Auction Agent of such transfer;

C. To have its beneficial ownership of the Auction Rate Securities maintained at all times in Book Entry form for the account of its Agent Member, which in turn will maintain records of such beneficial ownership, and to authorize such Agent Member to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request;

D. That a Sell Order placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Auction Rate Securities specified in such Sell Order;

E. That a Bid placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of the Auction Rate Securities specified in such Bid if the rate specified in such Bid is greater than, or in some cases equal to, the Auction Rate determined in the Auction;

F. That a Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the principal amount, or a lesser principal amount, of Auction Rate Securities specified in such Bid if the rate specified in such Bid is less than or equal to the Auction Rate determined in the Auction; and

G. To tender its Auction Rate Securities for purchase at 100% of the principal amount thereof, plus accrued but unpaid interest, on a Conversion Date or Period Adjustment Date.

The principal amount of the Auction Rate Securities purchased or sold may be subject to proration procedures on the Rate Determination Date. Each purchase or sale of Auction Rate Securities on the Rate Determination Date will be made for settlement on the first day of the Interest Period immediately following such Rate Determination Date at a price equal to 100% of the principal amount thereof plus accrued interest. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

#### **Auction Agent; Resignation or Removal; Successor**

Bankers Trust Company, New York, New York is appointed in the Series 1994A Supplemental Resolution as Initial Auction Agent to serve as agent for the Authority in connection with Auctions. The Trustee is directed by the Authority to enter into the Initial Auction Agent Agreement with the Initial Auction Agent.

The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Series 1994A Supplemental Resolution by giving at least ninety (90) days notice to the Trustee, the Authority and the Market Agent. The Auction Agent may be removed at any time by the Trustee upon the written direction of the Authority or the Registered Owners of at least 66-2/3% of the aggregate principal amount of the Auction Rate Securities then Outstanding, by an instrument signed by such Registered Owners or their attorneys and filed with the Auction Agent, the Authority, the Trustee and the Market Agent upon at least ninety (90) days notice. Neither resignation nor removal of the Auction Agent pursuant to the preceding two sentences will be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. If required by the Market Agent, a Substitute Auction Agent Agreement will be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within thirty (30) days after notifying the Trustee, the Authority and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

If the Auction Agent resigns or is removed, or is dissolved, or if the property or affairs of the Auction Agent are taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of the Authority (after receipt of a certificate from the Authority confirming that any proposed Substitute Auction Agent meets the requirements described in the immediately succeeding paragraph below), will use its best efforts to appoint a Substitute Auction Agent.

Any Substitute Auction Agent will be: (i) a bank or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, City of New York, New York, or such other location as approved by the Trustee and the Market Agent in writing, and having a combined capital stock or surplus of at least \$50,000,000; or (ii) a member of the National Association of Securities Dealers, Inc. having a capitalization of at least \$50,000,000 and, in either case, authorized by law to perform all the duties imposed upon it under the Series 1994A Supplemental Resolution and under the Auction Agent Agreement.

The Auction Agent is acting as agent for the Authority in connection with Auctions. In the absence of bad faith or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or any error

of judgement made by it in the performance of its duties under the Auction Agent Agreement and will not be liable for any error of judgement made in good faith unless the Auction Agent will have been negligent in ascertaining (or failing to ascertain) the pertinent facts necessary to make such judgement.

The Authority will pay the Auction Agent the Auction Agent Fee not later than 12:00 p.m. Eastern Time on the next succeeding Business Day after each Auction for the Auction Rate Securities and will reimburse the Auction Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Auction Agent in accordance with any provision of the Auction Agent Agreement or the Broker-Dealer Agreements (including the reasonable compensation and the expenses and disbursements of its agents and counsel). Such amounts are payable from the Revenues of the Trust Estate. The Authority will indemnify and hold harmless the Auction Agent for and against any loss, liability or expense incurred without negligence or bad faith on the Auction Agent's part, arising out of or in connection with the acceptance or administration of its agency under the Auction Agent Agreement and the Broker-Dealer Agreements, including the reasonable costs and expenses (including reasonable fees and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties under the Series 1994A Supplemental Resolution and under the Auction Agent and Broker-Dealer Agreements and of enforcing the indemnification provision; provided that the Authority will not indemnify the Auction Agent as described in this paragraph for any fees and expenses incurred by the Auction Agent in the normal course of performing its duties under the Auction Agent Agreement and under the Broker-Dealer Agreements, such fees and expenses being payable as described above.

#### **Broker-Dealer**

Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer" or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which: (i) is an Agent Member or an affiliate of an Agent Member; (ii) has been selected by the Authority; and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealers are entitled to a Broker-Dealer Fee, which is payable by the Auction Agent from monies received from the Trustee. Such Broker-Dealer Fee is payable from the Revenues of the Trust Estate as provided in the Series 1994A Supplemental Resolution.

#### **Market Agent**

Under the Market Agent Agreement, and in connection with the Auction Rate Securities, the "Market Agent", initially Smith Barney Inc., will act solely as agent of the Authority and will not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners of the Auction Rate Securities. The Market Agent will receive nominal compensation for the performance of its duties under the Market Agent Agreement.

### **AUCTION PROCEDURES**

#### **General**

Auctions to establish the Auction Rate will be held on each Rate Determination Date, except as described in the Official Statement under the caption "DESCRIPTION OF THE SERIES 1994A BONDS - Interest Rates on the Series 1994A Bonds" by application of the Auction Procedures described in the Series 1994A Supplemental Resolution. For a period beginning on the date of initial delivery and ending: (i) on January 25, 1995 with respect to the Series 1994A-

1 Bonds; and (ii) on May 31, 1995 with respect to the Series 1994A-2 Bonds, each subseries of the Auction Rate Securities will bear interest at the interest rate for such subseries determined on or about December 20, 1994.

Thereafter, the "Rate Determination Date" will be the Business Day immediately preceding the first day of each related Auction Period, other than: (i) an Auction Period which commences on a Conversion Date; (ii) each Auction Period commencing after the ownership of the Auction Rate Securities is no longer maintained in Book Entry form; (iii) each Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (iv) any Auction Period commencing less than two (2) Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Rate Determination Date for one or more Auction Periods may be changed as described below under the caption "CHANGES IN AUCTION TERMS".

Notwithstanding the foregoing, if any subseries of the Auction Rate Securities bears interest at an Auction Rate with an Auction Period in excess of 91-days, the Market Agent, with the consent of an Authorized officer of the Authority, will specify the Rate Determination Date for each Auction Period for such subseries of the Auction Rate Securities, which Rate Determination Date will not be more than ten (10) Business Days prior to the Rate Adjustment Date for such Auction Period.

#### **Calculation of Maximum Rate, All-Hold Rate and Non-Payment Rate**

The Auction Agent will calculate the Maximum Rate and the All-Hold Rate on each Rate Determination Date.

Upon receipt of notice from the Trustee of a failed Conversion as described in the Series 1994A supplemental Resolution, the Auction Agent will calculate the Maximum Rate as of such failed Conversion Date and give notice thereof as provided and to the parties specified in the Auction Agent Agreement. If the ownership of the Auction Rate Securities is no longer maintained in Book Entry form, the Trustee will calculate the Maximum Rate on the Business Day immediately preceding each Interest Payment Date after delivery of certificates representing the Auction Rate Securities.

If a Payment Default has occurred, the Trustee will calculate the Non-Payment Rate on the first day of: (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default; and (ii) any Interest Period commencing less than two (2) Business Days after the cure of any Payment Default.

The Auction Agent will determine the "AA" Composite Commercial Paper Rate for each Auction Period other than the first Auction Period; provided, that if the ownership of the Auction Rate Securities is no longer maintained in Book Entry form, or if a Payment Default has occurred, then the Trustee will determine the "AA" Composite Commercial Paper Rate for each such Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of the "AA" Composite Commercial Paper Rate will (in the absence of manifest error) be final and binding upon the Registered Owners and all other parties. If calculated or determined by the Auction Agent, the Auction Agent will promptly advise the Trustee and the Authority of the "AA" Composite Commercial Paper Rate.

#### **Adjustment in Percentages Used to Determine Maximum, All-Hold and Non-Payment Rates**

The Market Agent will adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate, if any such adjustment is necessary in the judgement of the Market Agent, to reflect any change of Tax Law such that Auction Rate Securities bearing interest at the Maximum Rate, the All-Hold Rate or the Non-Payment Rate in each case will have substantially equal market values before and after such Change of Tax Law. In making any such adjustment, the Market Agent will take the following factors,



as in existence both before and after such Change of Tax Law, into account: (i) short term taxable and tax-exempt market rates and indices of such short term rates; (ii) the market supply and demand for short term tax-exempt securities; (iii) yield curves for short term and long term tax-exempt securities or obligations having a credit rating that is comparable to the Auction Rate Securities; (iv) general economic conditions; and (v) economic and financial factors present in the securities industry that may affect or that may be relevant to the Auction Rate Securities.

The Market Agent will communicate its determination to adjust the percentage used in determining the All-Hold Rate, the Applicable Percentages used in determining the Maximum Rate and the percentage of the Index used in calculating the Non-Payment Rate by means of a written notice delivered at least ten (10) days prior to the Rate Determination Date on which the Market Agent desires to effect the change to the Authority, the Trustee and the Auction Agent.

An adjustment in the percentages used to determine the All-Hold Rate, the Maximum Rate and the Non-Payment Rate shall take effect on a Rate Determination Date only if the Trustee has confirmed that:

A. The Trustee, the Auction Agent and the Authority have received, by 11:00 a.m. Eastern Time on the Business Day immediately preceding such Rate Determination Date, a certificate from the Market Agent by telex, telecopy or similar means, in substantially the form required under the series 1994A Supplemental Resolution authorizing the adjustment of the percentage used to determine the All-Hold Rate, the Applicable Percentage used to determine the Maximum Rate and the percentage of the Index used in determining the Non-Payment Rate, and confirming that a Favorable Opinion is expected to be received with respect thereto; and

B. The Trustee and the Auction Agent have received by 9:30 a.m. Eastern Time on such Rate Determination Date a Favorable Opinion.

C. The Trustee and the Authority have received written confirmation from each Rating Agency that the proposed adjustment in the percentages used to determine the All-Hold Rate, the Maximum Rate and the Non-Payment Rate will not adversely affect its Rating then applicable to any of the Bonds.

If any of the conditions referred to in paragraph A. above are not met, the existing percentage used to determine the All-Hold Rate, the Applicable Percentage used to determine the Maximum Rate and the percentage of the Index used to determine the Non-Payment Rate will remain in effect, and the interest rate on the Auction Rate Securities for the next succeeding Interest Period will be determined in accordance with the Auction Procedures. If the condition referred to in paragraph B. above is not met, the existing percentage used to determine the All-Hold Rate, the percentage of the Index used to determine the Non-Payment Rate and the Applicable Percentage used to determine the Maximum Rate will remain in effect and the interest rate for the next succeeding Interest Period will equal the Maximum Rate on the Rate Determination Date.

#### Submission of Orders

As long as the ownership of the Auction Rate Securities is maintained in Book Entry form, an Existing Holder may sell, transfer or otherwise dispose of Auction Rate Securities only pursuant to a Bid or Sell Order placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer. Prior to a Conversion Date, Auctions for each subseries of the Auction Rate Securities will be conducted on each Rate Determination Date for such subseries, if there is an Auction Agent on such Rate Determination Date, in the following manner (such procedures apply separately to each subseries of the Auction Rate Securities).

Prior to the submission deadline (defined as 1:00 p.m. Eastern Time on any Rate Determination Date or such other time on any Rate Determination Date by

which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Rate Determination Date:

A. Each Existing Holder of Auction Rate Securities may submit to a Broker-Dealer by telephone or otherwise information as to: (i) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Period (a "Hold Order"); (ii) the principal amount of Outstanding Auction Rate Securities, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Interest Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of Outstanding Auction Rate Securities, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Interest Period (a "Sell Order"); and

B. One or more Broker-Dealers may contact Potential Holders to determine the principal amount of Auction Rate Securities which each such Potential Holder offers to purchase, if the Auction Rate for the next succeeding Auction Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Each Hold Order, Bid and sell Order will be an "Order". Each Existing Holder and each Potential Holder placing an Order is referred to as a "Bidder".

Subject to the provisions described below under the caption "Validity of Orders", a Bid by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be less than the rate specified in such Bid; (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described below under the caption "Acceptance and Rejection of orders", if the Auction Rate will be equal to the rate specified in such Bid; or (iii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities to be determined as described below under the caption "Acceptance and Rejection of Orders", if the rate specified therein will be higher than the Maximum Rate and Sufficient Clearing Bids have not been made.

Subject to the provisions below under the caption "Validity of Orders", a Sell Order by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Auction Rate Securities specified in such Sell Order; or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described below under the caption "Acceptance and Rejection of Orders", if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under the caption "Validity of orders", a Bid by a Potential Holder will constitute an irrevocable offer to purchase: (i) the principal amount of Outstanding Auction Rate Securities specified in such Bid if the Auction Rate will be higher than the rate specified in such Bid; or (ii) such principal amount or a lesser principal amount of Outstanding Auction Rate Securities as described below under the caption "Acceptance and Rejection of Orders", if the Auction Rate is equal to the rate specified in such Bid.

Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Rate Determination Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order: (i) the name of the Bidder placing such Order; (ii) the aggregate principal amount of Auction Rate Securities that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder, (a) the principal amount of Auction Rate Securities, if any, subject to any Hold Order placed by such Existing Holder, (b) the principal amount of Auction Rate Securities, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid, and (c) the

principal amount of Auction Rate Securities, if any, subject to any Sell Order placed by such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest one-thousandth (.001) of one percent.

If an Order or Orders covering all Outstanding Auction Rate Securities held by any Existing Holder are not submitted to the Auction Agent prior to the submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Auction Rate Securities held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Neither the Authority, the Trustee nor the Auction Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

An Existing Holder may submit multiple Orders, of different types and specifying different rates, in an Auction with respect to Auction Rate Securities then held by such Existing Holder. An Existing Holder that offers to purchase additional Auction Rate Securities is, for purposes of such offer, treated as a Potential Holder.

Any Bid specifying a rate higher than the Maximum Rate will: (i) be treated as a Sell Order if submitted by an Existing Holder; and (ii) not be accepted if submitted by a Potential Holder.

#### Validity of Orders

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Auction Rate Securities held by such Existing Holder, such Orders will be considered valid as follows and in the following order of priority:

A. *Hold Orders.* All Hold Orders will be considered valid, but only up to the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder, and if the aggregate principal amount of Auction Rate Securities subject to such Hold Orders exceeds the aggregate principal amount of Auction Rate Securities held by such Existing Holder, the aggregate principal amount of Auction Rate Securities subject to each such Hold Order will be reduced so that the aggregate principal amount of Auction Rate Securities subject to such Hold Orders equals the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder.

B. *Bids.* Any Bid will be considered valid up to an amount equal to the excess of the principal amount of Outstanding Auction Rate Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to any Hold Orders referred to above. Subject to the preceding sentence, if multiple Bids with the same rate are submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Auction Rate Securities subject to such Bids is greater than such excess, such Bids will be considered valid up to the amount of such excess. Subject to the two preceding sentences, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to the amount of such excess. In any event, the amount of Outstanding Auction Rate Securities, if any, subject to Bids not valid under the provisions described above will be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

C. *Sell Orders.* All sell orders will be considered valid up to the amount equal to the excess of the principal amount of Outstanding Auction Rate

Securities held by such Existing Holder over the aggregate principal amount of Auction Rate Securities subject to Hold Orders and valid Bids referred to above.

If more than one Bid for Auction Rate Securities is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Auction Rate Securities not equal to an Authorized Denomination will be rejected. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Rate Determination Date will be irrevocable.

A Hold Order, a Bid or a Sell Order that has been determined valid pursuant to the procedures described above is referred to as "Submitted Hold Order", a "Submitted Bid" and a "Submitted sell Order", respectively (collectively, "Submitted Orders").

#### Determination of Sufficient Clearing Bids and Auction Rate

Not earlier than the Submission Deadline on each Rate Determination Date, the Auction Agent will assemble all valid Submitted Orders and will determine:

A. The excess of the total principal amount of Outstanding Auction Rate Securities over the sum of the aggregate principal amount of outstanding Auction Rate Securities subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Auction Rate Securities"); and

B. From such Submitted Orders whether the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Rate exceeds or is equal to the sum of: (i) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Rate; and (ii) the aggregate principal amount of Outstanding Auction Rate Securities subject to Submitted Sell Orders (in the event such excess or such equality exists other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold orders, such Submitted Bids by Potential Holders described above will be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

C. If Sufficient Clearing Bids exist, the "Winning Bid Rate" will be the lowest rate specified in such Submitted Bids such that if,

1. each such Submitted Bid from Existing Holders specifying such lowest rate and all other submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bids); and

2. each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates were accepted,

the result would be that such Existing Holders described in subparagraph 1. above would continue to hold an aggregate principal amount of Outstanding Auction Rate Securities which, when added to the aggregate principal amount of Outstanding Auction Rate Securities to be purchased by such Potential Holders described in subparagraph 2. above, would equal not less than the Available Auction Rate Securities.

## Notice of Auction Rate

Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Trustee and the Authority of the Maximum Rate and the All-Hold Rate and the components thereof on the Rate Determination Date, and based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

A. If Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period will be equal to the Winning Bid Rate so determined;

B. If sufficient Clearing Bids do not exist (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Rate; or

C. If all Outstanding Auction Rate Securities are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period will be equal to the All-Hold Rate.

Not later than the second Business Day of each Auction Period, the Trustee will notify the Registered Owners of the Auction Rate Securities of the Auction Rate for such Auction Period.

## Acceptance and Rejection of Orders

Existing Holders will continue to hold the principal amount of Auction Rate Securities that are subject to Submitted Hold Orders. Submitted Bids and Submitted Sell Orders will be accepted or rejected, and the Auction Agent will take such other action as set forth below.

*Sufficient Clearing Bids.* If Sufficient Clearing Bids have been made, all Submitted Sell Orders will be accepted and, subject to the procedures described under the caption "Authorized Denominations Requirement" below, Submitted Bids will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected.

A. Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

B. Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

C. Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be accepted;

D. Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bid, unless the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids will be greater than the principal amount of Auction Rate Securities (the "remaining principal amount") equal to the excess of the Available Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in paragraphs B. and C. above, in which event such Submitted Bid of such Existing Holder will be rejected in part and such Existing Holder will be entitled to continue to hold the principal amount of Auction Rate Securities subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Auction Rate Securities obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the

principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and

E. Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be accepted, but only in an amount equal to the principal amount of Auction Rate Securities obtained by multiplying the excess of the aggregate principal amount of Auction Rate Securities over the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in paragraphs B., C. and D. above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Auction Rate Securities subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

*Insufficient Clearing Bids.* If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Auction Rate Securities are subject to Submitted Hold Orders), subject to the procedures described under the caption "Authorized Denominations Requirement" below, Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected.

A. Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Auction Rate Securities subject to such Submitted Bids;

B. Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be accepted, and Potential Holders' Submitted Bids specifying any rate that is higher than the Maximum Rate will be rejected; and

C. Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Auction Rate Securities subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount of Auction Rate Securities obtained by multiplying the aggregate principal amount of Auction Rate Securities subject to Submitted Bids described in paragraph B. above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Auction Rate Securities held by such Existing Holder subject to such Submitted Bid or Submitted Sell order and the denominator of which will be the aggregate principal amount of Outstanding Auction Rate Securities subject to all such Submitted Bids and Submitted Sell Orders.

*All Hold Orders.* If all Outstanding Auction Rate Securities are subjected to Submitted Hold Orders, all Submitted Bids will be rejected.

*Authorized Denominations Requirement.* If, as a result of the procedures described above under the captions "Sufficient Clearing Bids" and "Insufficient Clearing Bids", any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Auction Rate Securities that is not equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, round up or down the principal amount of Auction Rate Securities to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Auction Rate Securities purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Insufficient Clearing Bids, any Potential Holder would be entitled or required to purchase less than a principal amount of Auction Rate Securities equal to an

Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, allocate Auction Rate Securities for purchase among Potential Holders so that only Auction Rate Securities in an Authorized Denomination are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Auction Rate Securities.

Based on the results of each Auction, the Auction Agent will determine the aggregate principal amount of Auction Rate Securities to be purchased and the aggregate principal amount of Auction Rate Securities to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Auction Rate Securities to be sold differs from such aggregate principal amount of Auction Rate Securities to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Auction Rate Securities.

The Authority may not submit an Order in any Auction.

Any calculation by the Auction Agent (or the Trustee, if applicable) of the Auction Rate, the "AA" Composite Commercial Paper Rate, the Maximum Rate, the All-Hold Rate and the Non-Payment Rate will, in the absence of manifest error, be binding on all other parties.

#### Settlement Procedures

The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of: (i) the Auction Rate for the next Interest Period; (ii) whether there were sufficient Clearing Bids in such Auction; and (iii) if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part; by telephone not later than 3:00 p.m. Eastern Time on the Rate Determination Date. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Auction Rate for the next Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling Auction Rate Securities as a result of the Auction and advise each Bidder purchasing or selling Auction Rate Securities as a result of the Auction to give instructions to its Agent Member to pay the purchase price against delivery of such Auction Rate Securities or to deliver such Auction Rate Securities against payment therefor, as appropriate. Pursuant to the Auction Agent Agreement, the Auction Agent will record each transfer of Auction Rate Securities on the Existing Holders Registry to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Rate Determination Date, the transactions described above will be executed through DTC (so long as DTC is the securities Depository) and the accounts of the respective Agent Members at DTC will be debited and credited and Auction Rate Securities delivered as necessary to effect the purchases and sales of Auction Rate Securities as determined in the Auction. Purchasers are required to make payment through their Agent Members in same-day funds to DTC against delivery through their Agent Members. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its agent members in immediately available funds.

If any Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities, the Broker-Dealer of any person that was to have purchased Auction Rate Securities in such Auction may deliver to such person a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such person but in any event equal to an Authorized Denomination. In such event, the principal amount of Auction Rate Securities to be delivered will be determined by such Broker-Dealer. Delivery of such lesser principal amount of

Auction Rate Securities will constitute good delivery. Neither the Trustee nor the Auction Agent nor the Authority will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Agent Member to deliver the principal amount of Auction Rate Securities or to pay for the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise.

For a further description of the settlement procedures, see "Appendix G - SETTLEMENT PROCEDURES FOR THE AUCTION RATE SECURITIES" hereto.

**AUTHORITY AND TRUSTEE NOT RESPONSIBLE FOR AUCTION AGENT,  
MARKET AGENT AND BROKER-DEALER**

Neither the Trustee nor the Authority will be liable or responsible for the actions of or failure to act by the Auction Agent, Market Agent or any Broker-Dealer under the Series 1994A Supplemental Resolution or under the Auction Agent Agreement, the Market Agent Agreement or any Broker-Dealer Agreement. The Trustee and the Authority may conclusively rely upon any information required to be furnished by the Auction Agent, Market Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

**CHANGES IN AUCTION TERMS**

**Changes in Auction Period or Periods.**

While any subseries of the Auction Rate securities are outstanding, the Authority, from time to time, may change the length of one or more Auction Periods for a subseries of the Auction Rate Securities in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such subseries of the Auction Rate Securities (an "Auction Period Adjustment"). The Authority will not initiate such change in the length of any Auction Period unless it has received written confirmation from each Rating Agency that the change in the Auction Period will not adversely affect its rating then applicable to any of the Bonds and has received written consent from the Market Agent, which consent will not be unreasonably withheld, not less than three (3) days nor more than twenty (20) days prior to the effective date of an Auction Period Adjustment. The Authority will initiate an Auction Period Adjustment by giving written notice thereof in the form set forth in the Series 1994A Supplemental Resolution to the Trustee, the Auction Agent, the Market Agent and the Securities Depository at least ten (10) days prior to the Rate Determination Date for such Auction Period.

Any such Auction Period Adjustment will not be less than seven (7) days nor more than ninety-one (91) days or a period of six (6) months, nine (9) months or one (1) year. If any such Auction Period Adjustment will result in an Auction Period of less than twenty-eight (28) days, the notice described above will be effective only if it is accompanied by a written statement of the Trustee, the Auction Agent and the Securities Depository to the effect that they are capable of performing their duties, if any, under the Series 1994A Supplemental Resolution, the Auction Agent Agreement and any Broker-Dealer Agreement with respect to such changed Auction Period.

A change in the length of any Auction Period will not be allowed unless sufficient Clearing Bids existed at both the Auction immediately preceding the date on which the notice of the proposed change was given as described above and the Auction immediately preceding the proposed change.

The change in length of one or more Auction Periods for any subseries of the Auction Rate Securities will take effect only if: (i) the Trustee and the Auction Agent receive, by 11:00 a.m. Eastern Time on the Business Day before the



Rate Determination Date for the first such Auction Period, a certificate from the Authority authorizing an Auction Period Adjustment specified in such certificate; and (ii) sufficient Clearing Bids exist at the Auction on the Rate Determination Date for such first Auction Period. If the condition referred to in (i) above is not met, the Auction Rate will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (i) above is met, but the condition referred to in (ii) above is not met, the Auction Rate will be the Maximum Rate and the Auction Period will be the Auction Period determined without reference to the proposed change.

A change in the length of one or more Auction Periods will not be allowed unless the Authority receives confirmation from each Rating Agency rating the Series 1994A Bonds at the request of the Authority that such change in Auction Period will not adversely affect its Rating then applicable to any Series 1994A Bonds.

#### Changes in the Rate Determination Date

So long as any subseries of the Auction Rate Securities bears interest at an Auction Rate, the Market Agent, with the written consent of the Authority, may specify an earlier Rate Determination Date (but in no event more than five (5) Business Days earlier) than the Rate Determination Date that would otherwise be determined in accordance with the definition of "Rate Determination Date" in "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" hereto with respect to one or more specified Auction Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting a Rate Determination Date and the interest rate borne on the Auction Rate Securities. The Authority will not consent to such change in the Rate Determination Date unless the Authority has received from the Market Agent not less than three (3) days nor more than twenty (20) days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Rate Determination Date for one or more Auction Periods by means of a written notice delivered at least ten (10) days prior to the proposed changed Rate Determination Date to the Trustee, the Auction Agent, the Authority and the Securities Depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the Series 1994A Supplemental Resolution.

The changes in Auction terms described above may be made with respect to any subseries of the Auction Rate securities (but in such latter case separate notices will be prepared and delivered as provided above and, with respect to changes in the length of Auction Periods, the conditions specified above will be applied to each subseries separately). In connection with any change in Auction Terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

#### Changes in the Interest Payment Dates

The Authority may change the Interest Payment Date with respect to a subseries of the Auction Rate Securities to or from semi-annual payments to or from the Interest Payment Dates specified in the notice of such change described below in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the dates on which interest should be paid and the interest rate borne on the Auction Rate Securities. The Authority will not initiate such change in the Interest Payment Date unless it has received the written consent of the Market Agent, which consent will not be unreasonably withheld, not less than three (3) days nor more than twenty (20) days prior to the effective date of such change. The Authority will initiate the change in the Interest Payment Date of any subseries of the Auction Rate Securities by giving written notice to the Trustee, the Auction Agent, the Market Agent and

the Securities Depository in substantially the form of, or containing substantially the information contained in, the Series 1994A Supplemental Resolution at least ten (10) days prior to the Rate Determination Date for such subseries of the Auction Rate Securities.

A change in the Interest Payment Dates for any subseries of the Auction Rate Securities will not be allowed unless sufficient clearing Bids existed at both the Auction for such subseries of the Auction Rate Securities before the date on which the notice of the proposed change was given as provided in the Series 1994A Supplemental Resolution and the Auction for such subseries of the Auction Rate Securities immediately preceding the proposed change.

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Oklahoma Student Loan Authority  
Student Loan Revenue Bonds, Series 1994A

SETTLEMENT PROCEDURES FOR THE AUCTION RATE SECURITIES

If not otherwise defined below, capitalized terms used in this Appendix have the meanings given such terms in "Appendix A - SUMMARY OF CERTAIN DEFINITIONS AND PROVISIONS OF THE BOND RESOLUTION" hereto.

Notice to Broker-Dealers of Auction Results

Not later than 3:00 p.m. Eastern Time on each Rate Determination Date, the Auction Agent will notify by telephone each Broker-Dealer that participated in the Auction held on such Rate Determination Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

- A. The Auction Rate fixed for the next Interest Period;
- B. Whether there were Sufficient Clearing Bids in such Auction;
- C. If such Broker-Dealer (a "Seller's Broker-Dealer") submitted Bids or Sell Orders on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be sold by such Existing Holder;
- D. If such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Holder;
- E. If the aggregate amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Agent Member, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Holders on whose behalf such Seller's Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;
- F. If the principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Agent Member, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be sold to one or more Potential Holders on whose behalf such Buyer's Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted;
- G. Unless previously provided, a list of all Applicable Auction Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and
- H. The Rate Determination Date for the next succeeding Auction.

## Obligations of Broker-Dealer

On each Rate Determination Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder will:

A. Advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Rate Determination Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

B. In the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Agent Member to pay such Buyer's Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary, including accrued interest, if any, to purchase the principal amount of the Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

C. In the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Seller's Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Agent Member to deliver to such Seller's Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of Auction Rate Securities to be sold pursuant to such Order against payment therefor;

D. Advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Auction Rate for the next Interest Period;

E. Advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Rate Determination Date; and

F. Advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Rate Determination Date for such subseries of the Auction Rate Securities.

## Allocations By Broker-Dealer

On the basis of the information provided to it pursuant to information under the caption "Notice to Broker-Dealers of Auction Results" above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph B. under the caption "Obligations of Broker-Dealer" above, and any Auction Rate Securities received by it in connection with such Auction pursuant to paragraph C. under the caption "Obligations of Broker-Dealer" above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph E. or F. information under the caption "Notice to Broker-Dealers of Auction Results" above.

On each Rate Determination Date:

A. Each Potential Holder and Existing Holder with an order in the Auction on such Rate Determination Date will instruct its Agent Member as provided in paragraph B. or C. under the caption "Obligations of Broker-Dealer" above, as the case may be;

B. Each Seller's Broker-Dealer that is not an Agent Member of the Securities Depository will instruct its Agent Member to: (i) pay through the Securities Depository to the Agent Member of the Existing Holder delivering the Auction Rate Securities to such Broker-Dealer following such Auction pursuant to paragraph C under the caption "Obligations of Broker-Dealer" above the amount necessary, including accrued interest, if any, to purchase such Auction Rate

Securities against receipt of such Auction Rate Securities; and (ii) deliver such Auction Rate Securities through the Securities Depository to a Buyer's Broker-Dealer (or its Agent Member) identified to such Seller's Broker-Dealer pursuant to paragraph E. under the caption "Notice to Broker-Dealers of Auction Results" above against payment therefor; and

C. Each Buyer's Broker-Dealer that is not an Agent Member in the Securities Depository will instruct its Agent Member to: (i) pay through the Securities Depository to Seller's Broker-Dealer (or its Agent Member) identified following such Auction pursuant to paragraph F. under the caption "Notice to Broker-Dealers of Auction Rates" above the amount necessary, including accrued interest, if any, to purchase the Auction Rate Securities to be purchased pursuant to paragraph B. under the caption "Obligations of Broker-Dealer" above against receipt of such Auction Rate Securities to be purchased pursuant to such paragraph against receipt of such Auction Rate Securities; and (ii) deliver such Auction Rate Securities through the Securities Depository to the Agent Member of the purchaser against payment therefor.

#### **Broker-Dealer Instructions to Securities Depository**

On the Business Day following each Rate Determination Date:

A. Each Agent Member for a Bidder in the Auction on such Rate Determination Date referred to in paragraph A. under the caption "Allocations by Broker-Dealer" above will instruct the Securities Depository to execute the transactions described under paragraph B. or C. under the caption "Obligations of Broker-Dealer" above for such Auction, and the Securities Depository will execute such transactions;

B. Each Seller's Broker-Dealer or its Agent Member will instruct the Securities Depository to execute the transactions described in paragraph B. under the caption "Allocations by Broker-Dealer" above for such Auction, and the Securities Depository will execute such transactions; and

C. Each Buyer's Broker-Dealer or its Agent Member will instruct the Securities Depository to execute the transactions described in paragraph C. under the caption "Allocations by Broker-Dealer" above for such Auction, and the Securities Depository will execute such transactions.

#### **Existing Holder's Failure to Deliver**

If an Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Auction Rate Securities to be so delivered will be determined solely by such Broker-Dealer (but only in denominations of \$100,000 and integral multiples thereof). Delivery of such lesser principal amount of Auction Rate Securities will constitute good delivery. Notwithstanding the foregoing terms of this paragraph, any delivery or nondelivery of Auction Rate Securities which will represent any departure from the results of an Auction, as determined by the Auction Agent, will be of no effect unless and until the Auction Agent has been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements. Neither the Trustee nor the Auction Agent nor the Authority will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Agent Member to take delivery of or deliver; as the case may be, the principal amount of the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise.

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FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Oklahoma Student Loan Authority, Student Loan Revenue Bonds, Series 1994A, Kutak Rock, as Bond Counsel, proposes to issue its approving opinion regarding the 1994A Bonds in substantially the following form:

December \_\_\_\_, 1994

Oklahoma Student Loan Authority  
Oklahoma City, Oklahoma

Smith Barney Inc.  
New York, New York

\$32,200,000  
Oklahoma Student Loan Authority  
Student Loan Revenue Bonds  
Series 1994A

Ladies and Gentlemen:

We have acted as Bond Counsel to the Oklahoma Student Loan Authority (the "Authority"), an express trust duly created and established for public purposes, pursuant to a Trust Indenture dated as of the 2nd day of August, 1972 (the "Trust Indenture") executed under the authority of and pursuant to, and duly organized and existing under the provisions of, the Constitution and the laws of the State of Oklahoma (the "State"), including particularly, the provisions of Title 70, Oklahoma Statutes, 1991, Sections 695.1 et seq., as amended, and Title 60, Oklahoma Statutes, 1991, Sections 176 et seq., as amended (collectively referred to herein as the "Act"), in connection with the authorization, sale, issuance and delivery of \$32,200,000 aggregate principal amount of its Student Loan Revenue Bonds, Series 1994A-1 and Series 1994A-2 (collectively, the "Series 1994A Bonds").

The Series 1994A Bonds are issued under and pursuant to the Act and (i) a resolution of the Authority entitled "General Resolution of the Trustees of the Oklahoma Student Loan Authority pertaining to the issuance of Debt Obligations with respect to its State Student Loan Program III" adopted on June 25, 1991, as amended and supplemented by the First Supplement to General Resolution adopted on October 28, 1994 (collectively, the "General Resolution"), as further amended and supplemented by a Series 1992 A and Series 1992 B Supplemental Bond Resolution adopted November 6, 1992 (the "Series 1992A&B Supplemental Resolution"), (ii) the Series 1994A Supplemental Bond Resolution adopted by the Trustees of the Authority on December \_\_\_\_, 1994 (the "Series 1994A Supplemental Resolution"), and (iii) a Trust Agreement, dated as of December 1, 1994 (the "Trust Agreement"), by and between the Authority and Boatmen's First National Bank of Oklahoma, Oklahoma City, Oklahoma, as trustee thereunder (the "Trustee"). The Series 1994A Bonds are issued for the purpose of providing funds, which together with other legally available funds, will be used by the Authority (i) to provide funds to finance Eligible Loans, (ii) to fund capitalized interest, (iii) to fund the Debt Service Reserve Requirement for the Series 1994A Bonds and (iv) to pay the costs related to the issuance of the Series 1994A Bonds. The General Resolution, the Series 1992A&B Supplemental Resolution and the Series 1994A Supplemental Resolution are collectively referred to herein as the "Resolutions." Capitalized terms used, but not defined, in this opinion shall have the same meanings which are ascribed to such terms in the Resolutions unless the context shall clearly indicate otherwise.

The Series 1994A Bonds are dated, mature on the dates and in the principal amounts, bear interest, are payable, are subject to redemption and to mandatory tender for purchase prior to maturity and have such other terms and conditions as provided in the Resolutions. The Series 1994A Bonds are issued under the Resolutions on a parity with the Authority's \$39,670,000 outstanding aggregate principal amount of Student Loan Revenue Refunding Bonds, Series 1992 A and Series 1992 B (the "Series 1992 Bonds"); the Resolutions provide for the issuance of Additional Bonds thereunder in the future to be secured on a parity with the Series 1994A Bonds, the Series 1992 Bonds and any other Additional Bonds issued under the Resolutions.

In our capacity as Bond Counsel, we have examined the laws of the State and of the United States of America relevant to the opinions expressed herein and the certified transcript of proceedings relating to the authorization, sale, issuance and delivery of the Series 1994A Bonds, including originals or copies, certified or otherwise identified to our satisfaction, of (i) the Trust Indenture, (ii) the Resolutions, (iii) the Trust Agreement, (iv) the Tax Regulatory Agreement dated as of December 1, 1994, between the Authority and the Trustee, and (v) such other documents, records and certificates as we have deemed relevant and necessary in rendering the opinions expressed herein. As to questions of fact material to our opinion, we have relied upon the representations and covenants made on behalf of the Authority and certifications of public officials and other parties involved in the issuance of the Series 1994A Bonds (including certifications as to the use of the proceeds of the Series 1994A Bonds) without undertaking to verify the same by independent investigation.

We also have relied upon the opinion, dated this date, of counsel to the Trustee with respect to the due organization and good standing of the Trustee, the corporate power of the Trustee to enter into and the due authorization, execution and delivery of the Trust Agreement and that the same constitutes the legal, valid and binding obligation of the Trustee.

We have not passed upon any matters relating to the business, properties, affairs or condition, financial or otherwise, of the Authority and no inference should be drawn that we have expressed an opinion on matters relating to the financial ability of the Authority to perform its obligations under Series 1994A Bonds and the documents described herein.

Based upon and subject to the foregoing, we are of the opinion that as of the date hereof and under existing law:

1. The Authority is an express trust duly created and established for public purposes, pursuant to the Trust Indenture executed under the authority of and pursuant to the Act, and has full power and authority to issue the Series 1994A Bonds and to adopt the Resolutions and enter into the Trust Agreement and the other documents contemplated thereby and perform its obligations thereunder.

2. The Resolutions, the Trust Agreement and the Tax Regulatory Agreement have been duly authorized, executed and delivered, are in full force and effect and constitute legal, valid and binding agreements of the Authority enforceable in accordance with their terms.

3. The Series 1994A Bonds have been duly authorized and issued by the Authority, are entitled to the benefits of the Resolutions and are valid and binding limited and special revenue obligations of the Authority secured, on a parity with the Series 1992 Bonds and any Additional Bonds hereafter issued, by and payable solely from the revenues, funds and accounts of the Authority pledged as the trust estate therefor pursuant to the Resolutions. The Series 1994A Bonds do not constitute or create an obligation (general or special), debt, liability or moral obligation of the State of Oklahoma or any political subdivision thereof



and neither the faith and credit nor the taxing power of the State of Oklahoma or any political subdivision thereof is pledged to the payment of the principal of, premium, if any, or interest on the Series 1994A Bonds.

4. Under existing laws, regulations, rulings and judicial decisions, interest on the Series 1994A Bonds is excludable from gross income of the recipients thereof for federal income tax purposes. We are further of the opinion that interest on the Series 1994A Bonds is a specific preference item for purposes of the federal alternative minimum tax applicable to individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code").

The opinions set forth in the foregoing paragraph are subject to continuing compliance by the Authority with the covenants relating to the provisions of the Code contained in the Resolutions and by the Authority and the Trustee with such covenants contained in the Tax Regulatory Agreement. Failure to comply with such covenants could cause the interest on the Series 1994A Bonds to be included in gross income of the recipients thereof for purposes of federal income taxation retroactively to the date of issuance of the Series 1994A Bonds.

We express no opinions regarding any other consequences affecting the federal income tax liability of a recipient of interest on the Series 1994A Bonds.

The Series 1994A Bonds are being issued as Auction Rate Securities (a Service Mark of Smith Barney Inc.) and, pursuant to the provisions of the Series 1994A Supplemental Resolution, the interest rate on the Series 1994A Bonds may be converted to a Fixed Rate or to a Variable Rate upon the satisfaction of various conditions, one of which is the delivery at such time of an opinion of Bond Counsel to the effect that such conversion will not, of itself, cause interest on the Series 1994A Bonds to become included in gross income of the recipients thereof for federal income tax purposes. We express no opinion as to any Series 1994A Bond or the interest thereon if any such conversion is taken pursuant to an opinion furnished by any other bond counsel.

5. Pursuant to the Act, the Series 1994A Bonds and the income therefrom are exempt from taxation in the State.

The opinions expressed above with respect to the enforceability of the Series 1994A Bonds and the documents described herein are qualified to the extent that the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws relating to or affecting creditors' rights generally heretofore or hereafter enacted, by the application of general principles of equity, and by the exercise of judicial discretion in appropriate cases.

For the purposes of this opinion, our services as Bond Counsel have not extended beyond the examinations and expressions of the conclusions referred to above. The opinions expressed herein are based upon existing law as of the date hereof and we express no opinion herein as of any subsequent date or with respect to any pending legislation.

Respectfully submitted,

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