

OFFICIAL STATEMENT DATED APRIL 29, 1997

NEW ISSUE - BOOK ENTRY ONLY

In the opinion of Bond Counsel, assuming continuing compliance with certain requirements and covenants, under existing law, interest on the Series 1997A Bonds is excludable from gross income for federal income tax purposes; however, interest on the Series 1997A Bonds constitutes a specific item of tax preference for purposes of the federal alternative minimum tax. Bond Counsel is further of the opinion that, pursuant to the Act, the Series 1997A Bonds and the income therefrom are exempt from taxation in the State of Oklahoma. For a more complete description of certain tax matters, see the caption "TAX MATTERS" herein.

\$33,000,000

OKLAHOMA STUDENT LOAN AUTHORITY

Oklahoma Student Loan Bonds and Notes

Variable Rate Demand Obligations, Series 1997A

(Weekly Rate Bonds)

Price: 100%

Dated: Date of Issuance

Due: December 1, 2026

The Oklahoma Student Loan Bonds and Notes, Variable Rate Demand Obligations, Series 1997A (the "Series 1997A Bonds") will be issued by the Oklahoma Student Loan Authority (the "Authority") pursuant to the Series 1996A Bond Resolution, as supplemented and amended by the Series 1997A Supplemental Bond Resolution adopted by the trustees of the Authority on November 4, 1996 and to be adopted on or about May 5, 1997, respectively (collectively, and as further supplemented and amended, the "Bond Resolution"). The Series 1997A Bonds will be issued as fully registered obligations without coupons in principal amounts of \$100,000 or any integral multiple of \$5,000 in excess thereof. Interest on the Series 1997A Bonds will be payable semi-annually at the applicable rates of interest on June 1 and December 1 of each year, commencing December 1, 1997. The Series 1997A Bonds are being issued as Additional Bonds and Notes pursuant to the Bond Resolution on a parity with the Authority's Variable Rate Demand Obligations, Series 1996A and any Additional Bonds which may be issued pursuant to the Bond Resolution. See "SECURITY AND SOURCES OF PAYMENT."

The Series 1997A Bonds initially will bear interest at a Weekly Rate, determined as provided herein by Rauscher Pierce Refsnes, Inc., as Remarketing Agent, but in no event will such rate exceed 12% per annum, except for Bank Bonds. The first Weekly Rate Period will extend from closing and delivery of the Series 1997A Bonds through May 20, 1997 at a rate to be determined by the Remarketing Agent on or about May 8, 1997. During any Weekly Rate Period, interest will be calculated on the basis of a 365- or 366- day year, as applicable, and the actual days elapsed. During any Weekly Rate Period, the Series 1997A Bonds are subject to tender at the option of the holder upon 7 days' notice, at the Purchase Price thereof at the principal office of Bank of Oklahoma, N.A., Oklahoma City, Oklahoma, or its successors as Tender Agent pursuant to the Tender Agent Agreement.

When issued, the Series 1997A 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. Individual purchases of beneficial ownership interests in the Series 1997A Bonds will be made in Book Entry form only. The principal of and interest on the Series 1997A Bonds are payable from the Trust Estate (as defined herein) held by the Trustee, Bank of Oklahoma, N.A., Oklahoma City, Oklahoma, or its successors, 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 1997A Bonds. See the caption "SECURITIES DEPOSITORY" herein.

Pursuant to an optional or mandatory tender of Variable Rate Bonds, payment of the Purchase Price of the Series 1997A Bonds will be secured by a Standby Bond Purchase Agreement among the Authority, the Tender Agent and the

STUDENT LOAN MARKETING ASSOCIATION

Payment of the regularly scheduled principal of and interest on the Series 1997A Bonds will be secured by a financial guaranty insurance policy issued by

MBIA

The Series 1997A Bonds are subject to optional and mandatory redemption prior to maturity, to acceleration and to optional and mandatory tender for purchase as more fully described in the Bond Resolution and herein under the caption "DESCRIPTION OF THE SERIES 1997A BONDS." The Series 1997A Bonds are subject to Conversion to different interest rate modes, as described herein.

The Series 1997A Bonds, and the interest thereon are limited and special revenue obligations of the Authority, secured by and payable solely from the revenues, funds and other assets specifically pledged therefor, as more particularly described herein and in the Bond Resolution. The Series 1997A 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, or interest on, the Series 1997A Bonds. The Series 1997A Bonds, and the interest thereon, are not personal obligations of the trustees of the Authority and are not a general obligation of the Authority. The Authority has no taxing power.

The Series 1997A 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.; for the underwriter by its counsel, Chapman and Cutler, Phoenix, Arizona; for MBIA by its counsel, Kutak Rock, Omaha, Nebraska; and for Sallie Mae by its General Counsel. It is expected that the Series 1997A Bonds will be delivered through the facilities of DTC in New York, New York on or about May 13, 1997.

RAUSCHER PIERCE REFSNES, INC.

No dealer, broker, salesman or other person has been authorized by the Authority 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 1997A 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, The Depository Trust Company, MBIA Insurance Corporation, the Student Loan Marketing Association, 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, The Depository Trust Company, MBIA Insurance Corporation and the Student Loan Marketing Association has been furnished by those persons, 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 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 1997A Bonds.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE SERIES 1997A BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE SERIES 1997A BONDS HAVE NOT BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE SERIES 1997A 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 1997A BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON, OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.

This cover contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire Official Statement, including all Appendices attached hereto, to obtain information essential to the making of an informed investment decision. See the caption "INVESTMENT CONSIDERATIONS" herein for a discussion of certain factors which prospective investors should consider in connection with an investment in the Series 1997A Bonds offered hereby.

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INDEX OF PRINCIPAL TERMS

The purpose of this Index is to provide an alphabetical listing, for convenience of reference, of the definitions of principal terms used in this Official Statement. Such terms are summaries or extracts of some of the definitions in the complete Bond Resolution. **Reference is hereby made to the Bond Resolution, copies of which are on file with the Trustee and the Authority, for the entire definitions and provisions thereof.** A copy of the Bond Resolution is available upon request to the Authority.

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\$33,000,000

**OKLAHOMA STUDENT LOAN AUTHORITY
Oklahoma Student Loan Bonds and Notes
Variable Rate Demand Obligations
Series 1997A**

INTRODUCTION

General

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 Oklahoma Student Loan Bonds and Notes, Variable Rate Demand Obligations, Series 1997A (the "*Series 1997A Bonds*") to be dated the date of issuance, issued in the principal amount, maturing and bearing interest (not to exceed 12% per annum, except for Bank Bonds) as shown on the cover page hereof. The CUSIP number for the Series 1997A Bonds is 679110 CJ 3. The Series 1997A Bonds are issued as Additional Bonds and Notes pursuant to the Bond Resolution (as defined herein) secured on a parity with the Authority's \$32,580,000 Oklahoma Student Loan Bonds and Notes Variable Rate Demand Obligations, Series 1996A (the "*Series 1996A Bonds*"). The Series 1996A Bonds are variable rate demand obligations described under the caption "SECURITY AND SOURCE OF PAYMENT — Outstanding Parity Obligations" herein. The Series 1996A Bonds, the Series 1997A Bonds and any Additional Bonds and Notes are collectively referred to herein as the "*Bonds and Notes*".

For a further description of the Authority, see the caption "THE AUTHORITY" herein, and see also "Appendix C — OKLAHOMA STUDENT LOAN AUTHORITY, FINANCIAL INFORMATION AND OPERATING DATA" herein.

Authorization

The Series 1997A Bonds will be 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, as amended (the "*Public Trust Act*"). The "*Student Loan Act*" and the "*Public Trust Act*" are together referred to herein as the "*Act*".

The Series 1997A Bonds also will be issued pursuant to the Series 1996A Bond Resolution (the "*Series 1996A Bond Resolution*"), as supplemented and amended by the Series 1997A Supplemental Bond Resolution (the "*Series 1997A Bond Resolution*") adopted by the trustees of the Authority on November 4, 1996 and to be adopted on or about May 6, 1997, respectively (collectively, and as further supplemented and amended, the "*Bond Resolution*").

For the definitions and provisions of the Bond Resolution, including without limitation, provisions regarding: the rights, duties and obligations of the Authority, the Trustee and Registered Owners of the Bonds and Notes; the revenues and fund accounts of the Trust Estate; defaults and remedies; supplemental resolutions; resignation or removal of the Trustee and appointment of a successor; covenants; and discharge of the Bond Resolution; reference is made to the Bond Resolution, a copy of which is available upon request during the initial offering period to Rauscher Pierce Refsnes, Inc. at 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016, Attention: Public Finance and thereafter to the Authority.

Capitalized terms used and not defined herein have the same meanings set forth in the Bond Resolution unless the context clearly indicates otherwise.

Corporate Trustee

Administration of the Trust Estate created for the Bonds and Notes will be governed by a certain Series 1996A Trust Agreement dated as of November 1, 1996 (the "*Series 1996A Trust Agreement*") and a Series 1997A Trust Agreement dated as of May 1, 1997, (the "*Series 1997A Trust Agreement*"), each by and between the Authority and Bank of Oklahoma, N.A., Oklahoma City, Oklahoma, a national banking association with corporate trust powers, as trustee or its successors as trustee thereunder (the "*Trustee*"). The Series 1996A Trust Agreement and the Series 1997A Trust Agreement are collectively referred to herein as the "*Trust Agreement*." The Trustee also is acting as paying agent, authenticating agent and registrar pursuant to the Bond Resolution and the Trust Agreement.

Use of Proceeds

The proceeds of the Series 1997A Bonds, together with other legally available assets, will be used by the Authority, among other things: (i) to provide funds to finance Eligible Loans; (ii) to make an additional deposit to the Debt Service Reserve Account in an amount equal to two percent (2%) of the aggregate principal amount of the Series 1997A Bonds so that the amount therein shall equal the Debt Service Reserve Account Requirement; (iii) to fund capitalized interest, if any; and (iv) to pay costs of issuance. See the caption "ESTIMATED SOURCES AND USES OF FUNDS" herein.

Financed Eligible Loans

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 Boatmen's National Bank of Oklahoma, acting as "*Custodian*" pursuant to the provisions of a certain Master Custodian Services Agreement dated September 27, 1994 (the "*Custodian Agreement*") between Boatmen's National Bank of Oklahoma, as Custodian, and the Authority. The Authority anticipates appointing a successor entity as custodian in the third quarter of 1997.

See the captions "SECURITY AND SOURCES OF PAYMENT - Trust Estate"; "INVESTMENT CONSIDERATIONS"; and "THE AUTHORITY" herein; and see also the various Appendices hereto.

Financed Eligible Loans are expected to be acquired in the Trust Estate from loans previously originated or acquired, or to be originated or acquired, by the Authority to be available for such purpose. The Eligible Loans Financed by the proceeds of the Series 1996A Bonds were deposited in the Trust Estate on or before July 1, 1997. The Eligible Loans Financed by the proceeds of the Series 1997A Bonds are expected to be deposited in the Trust Estate on or before July 1, 1998, but the acquisition period for expending such proceeds extends through November 15, 1998, or such later date acceptable to the Credit Facility Provider.

It is anticipated that a significant number of Eligible Loans will be eligible for the Authority's "TOP™" program ("*TOP*"). TOP is the identifying trademark name of the Authority's behavioral incentive loan program for borrowers that are timely on payments and qualify for a subsequent interest rate discount of 1.50 percent on their education loans held by the Authority. In order to be eligible for TOP, (i) an education loan must have been, with certain exceptions, first disbursed on or after July 1, 1996 and (ii) an eligible borrower must make their first twelve (12) consecutive timely payments of principal and interest. Once achieved, the TOP loan discount is permanent. Federal Consolidation Loans held by the Authority are not eligible for the TOP loan discount.

Guarantee of Eligible Loans

Financed Eligible Loans will be guaranteed to the extent provided for in Title IV, Part B of the Higher Education Act of 1965, as amended and the regulations thereunder (the "*Higher Education Act*"): (i) by the Oklahoma State Regents for Higher Education (the "*State Regents*"), a Constitutional agency of the State acting as the State Guarantee Agency (the "*State Guarantee Agency*") in administering the Student Educational Assistance Fund (the "*Guarantee Fund*"); (ii) by other guarantors of Eligible Loans qualified under the provisions of the Bond Resolution to act in such capacity (each, including the State Guarantee Agency, a "*Guarantee Agency*"); or (iii) in certain instances by the Secretary (the "*Secretary*") of the United States Department of Education (the "*USDE*"). The respective Guarantee Agencies 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 Guarantee Agencies.

As of March 31, 1997, approximately 98.9% of the Federal Family Education Loan Program (the "*FFEL Program*") loans held by the Authority were guaranteed by the State Guarantee Agency, approximately 1.1% were guaranteed by another Guarantee Agency, and a small amount were guaranteed by the Secretary directly.

See the caption "GUARANTEE AGENCIES" herein; and see also, "Appendix E - THE STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL INFORMATION" hereto.

Recycling

As a general practice, the Authority utilizes Recoveries of Principal from its various funding sources to finance additional Eligible Loans instead of redeeming bond principal prior to its scheduled maturity (referred to herein as "*Recycling*"). The Authority plans to use this method of loan financing to the maximum extent possible with respect to the Series 1996A Bonds and Series 1997A Bonds. The Authority may use Recycling in the Trust Estate through June 1, 2002, or such earlier or later date acceptable to the Credit Facility Provider.

Unless otherwise agreed to in writing by the Credit Facility Provider, the Eligible Loans acquired with Recycling proceeds as a whole will have characteristics of interest yield, unpaid principal balance and type of eligible institution attended that fairly represent the characteristics of the total of Eligible Loans acquired with the proceeds of the Series 1996A Bonds and Series 1997A Bonds.

Loan Servicing

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 Series 1996A 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.

The Authority also performs origination and pre-acquisition interim servicing for certain other eligible lenders in Oklahoma that are participating members of the Authority's Statewide Lending Network (the "*Network*"). Pursuant to such arrangements, the Network members are required to sell to the Authority, and the Authority is required to buy, such loans from time to time in connection with the commencement of the repayment status of such loans.

Security for the Series 1997A Bonds

The Bond Resolution creates a pledge of revenues, funds, Financed Eligible Loans and other assets to the Trustee, as a Trust Estate for the benefit of the Registered Owners of Bonds and Notes and any Swap Counterparty. In addition, the Bond Resolution grants a security interest in the Trust Estate to the Trustee. The Bonds and Notes are limited and special revenue obligations of the Authority secured by and payable solely from such Trust Estate. See the caption "SECURITY AND SOURCES OF PAYMENT" herein.

The Series 1997A Bonds initially will bear interest at a Weekly Rate with certain optional tender rights and mandatory tender requirements. Rauscher Pierce Refsnes, Inc. is acting as the initial Remarketing Agent with respect to the Series 1997A Bonds (the "*Remarketing Agent*") under the Bond Resolution and that certain Remarketing Agreement dated as of May 1, 1997 (the "*Remarketing Agreement*") by and among the Authority, the Trustee and the Remarketing Agent.

Upon an optional or mandatory tender of the Series 1997A Bonds, if the Remarketing Agent is not able to remarket Series 1997A Bonds that have been tendered, payment of their Purchase Price will be secured initially by a Standby Bond Purchase Agreement dated as of May 1, 1997 (such agreement, including any Alternate Liquidity Facility in substitution therefor, a "*Series 1997A Liquidity Facility*") by and among the Authority, the Student Loan Marketing Association, Washington, D.C., a federally chartered corporation (in such capacity, including the provider of any Alternate Liquidity Facility in substitution therefor, the "*Series 1997A Liquidity Facility Provider*") and Bank of Oklahoma, N.A., Oklahoma City, Oklahoma, a national banking association, as tender agent (the "*Tender Agent*"). See the caption "THE SERIES 1997A LIQUIDITY FACILITY" herein. Payment of the Purchase Price of the Series 1996A Bonds upon optional or mandatory tender is also secured by a separate Standby Bond Purchase Agreement dated as of November 1, 1996, as amended by an Amendment (#1) to Standby Bond Purchase Agreement to be dated on or about May 13, 1997 (such agreement, including any Alternate Liquidity Facility in substitution therefor, a "*Series 1996A Liquidity Facility*") by and among the Authority, Sallie Mae (in such capacity, including any Alternate Liquidity Facility Provider for the Series 1996A Bonds, the "*Series 1996A Liquidity Facility Provider*"), and Bank of Oklahoma, N.A., Oklahoma City, Oklahoma, a national banking association, as successor trustee. Each Liquidity Facility secures only its respective series of Bonds and Notes and does not secure any other series of Bonds and Notes. The Authority has reserved the right to replace either Liquidity Facility with an Alternate Liquidity Facility pursuant to the requirements of the Bond Resolution and the applicable Liquidity Facility.

In addition, payment of the scheduled principal of, and interest on, the Series 1997A Bonds will be secured by a financial guaranty insurance policy (such policy, including any Alternate Credit Facility in substitution therefor, the "*Series 1997A Credit Facility*") issued by MBIA Insurance Corporation, Armonk, New York, (in such capacity, including the provider of any Alternate Credit Facility in substitution therefor, the "*Series 1997A Insurer*" or the "*Series 1997A Credit Facility Provider*"). See the caption "THE SERIES 1997A CREDIT FACILITY" herein. The Series 1996A Bonds are also secured by a separate financial guaranty insurance policy (such policy, including any Alternate Credit Facility in substitution therefor, the "*Series 1996A Credit Facility*") issued by MBIA Insurance Corporation (in such capacity, including any Alternate Credit Facility Provider, the "*Series 1996A Credit Facility Provider*"). Each Credit Facility secures only its respective series of Bonds and Notes and does not secure any other series of Bonds and Notes. Neither Credit Facility covers the Purchase Price of the Series 1996A Bonds or Series 1997A Bonds upon an optional or mandatory tender; and, with certain exceptions, neither Credit Facility covers amounts due on any redemption of the Series 1996A Bonds or Series 1997A Bonds prior to their scheduled maturity. The Authority has reserved the right to replace either Credit Facility with an Alternate Credit Facility pursuant to the requirements of the Bond Resolution.

The Bonds and Notes, including the Series 1997A 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 Notes, including the Series 1997A 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, or interest on, the Bonds and Notes, including the Series 1997A Bonds. The Bonds and Notes, including the Series 1997A Bonds, and the interest thereon, are not personal obligations of the trustees of the Authority and are not a general obligation of the Authority. The Authority has no taxing power.

Availability of Documentation

The descriptions of the Bonds and Notes, including the Series 1997A Bonds, and of the documents authorizing and securing the Bonds and Notes, including the Series 1997A 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 Bonds and Notes and such documents. Copies of the documents may be examined at the office of the Trustee located at 201 Robert S. Kerr Avenue, Oklahoma City, Oklahoma 73102, Attention: Corporate Trust Group; 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 1997A Bonds, copies of such documents are available upon request to the offices of Rauscher Pierce Refsnes, Inc. located at 2398 East Camelback Road, Suite 700, Phoenix, Arizona 85016, Attention: Public Finance.

The information contained in "THE SERIES 1997A CREDIT FACILITY" below is not guaranteed as to accuracy or completeness by the Authority, the Underwriter, their respective counsel or Bond Counsel, and is not to be construed as a representation by any of those persons. None of the Authority, the Underwriter, their respective counsel or Bond Counsel 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 hereof.

THE SERIES 1997A CREDIT FACILITY

The following information has been furnished by the Series 1997A Insurer for use herein. Reference is made to Appendix B for a specimen of the Series 1997A Insurer's policy.

The Series 1997A Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Authority to the Trustee or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Series 1997A Bonds as such payments become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Series 1997A Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Series 1997A Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Series 1997A Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Series 1997A Bond. The Series 1997A Insurer's policy does not, under any circumstance, insure

against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the Purchase Price of Series 1997A Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Series 1997A Insurer's policy also does not insure against nonpayment of principal of or interest on the Series 1997A Bonds resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Series 1997A Bonds. The Series 1997A Insurer's policy has been endorsed to provide for cancellation upon delivery of an Alternate Credit Facility.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Series 1997A Insurer from the Trustee or any owner of a Series 1997A Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Series 1997A Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor (the "*Insurance Paying Agent*"), sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Series 1997A Bonds or presentment of such other proof of ownership of the Series 1997A Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Series 1997A Bonds as are paid by the Series 1997A Insurer, and appropriate instruments to effect the appointment of the Series 1997A Insurer as agent for such owners of the Series 1997A Bonds in any legal proceeding related to payment of insured amounts on the Series 1997A Bonds, such instruments being in a form satisfactory to the Insurance Paying Agent, the Insurance Paying Agent will disburse to such owners or the Trustee payment of the insured amounts due on such Series 1997A Bonds, less any amount held by the Trustee for the payment of such insured amounts and legally available therefor.

The Series 1997A Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Series 1997A Insurer. The Series 1997A Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Series 1997A Insurer has two European branches, one in the Republic of France and the other one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Series 1997A Insurer, changes in control and transactions among affiliates. Additionally, the Series 1997A Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

As of December 31, 1996, the Series 1997A Insurer had admitted assets of \$4.4 billion (audited), total liabilities of \$3.0 billion (audited), and total capital and surplus of \$1.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1995, the Series 1997A Insurer had admitted assets of \$3.8 billion (audited), total liabilities of \$2.5 billion (audited), and total capital and surplus of \$1.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Series 1997A Insurer's year-end financial statements prepared in accordance with statutory accounting practices are available without charge from the Series 1997A Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Series 1997A Insurer or the Securities and Exchange Commission. The address of the Series 1997A Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Series 1997A Insurer is (914) 273-4545.

Moody's rates the claims paying ability of the Series 1997A Insurer "Aaa".

S&P rates the claims paying ability of the Series 1997A Insurer "AAA".

Fitch Investors Service, L.P. rates the claims paying ability of the Series 1997A Insurer "AAA".

Each rating of the Series 1997A Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Series 1997A Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Series 1997A Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Series 1997A Bonds. The Series 1997A Insurer does not guaranty the market price of the Series 1997A Bonds nor does it guaranty that the ratings on the Series 1997A Bonds will not be revised or withdrawn.

ALTERNATE CREDIT FACILITY

The Authority may, and will upon the written request of the Liquidity Facility Provider, replace an existing Credit Facility with an Alternate Credit Facility at any time, which is intended to remain in full force and effect for at least one year, to provide security for payment of the principal of and interest on the applicable series of Bonds and Notes. The Authority must give the Trustee no less than thirty (30) days' prior written notice of its intention to replace the existing Credit Facility with an Alternate Credit Facility.

On or prior to the effective date of such replacement, the Authority must furnish to the Trustee: (i) an opinion of nationally recognized bond counsel that the delivery of such Alternate Credit Facility is authorized under Bond Resolution and that it will not adversely affect the exemption from federal income taxation of interest on the Bonds and Notes under the Code; (ii) written evidence from each Rating Agency that the substitution for the existing Credit Facility will not, by itself, result in a reduction of its Ratings of the Bonds and Notes from those applicable when the Credit Facility was last in effect or a withdrawal of its Ratings of the Bonds and Notes; and (iii) prior written consent of the Liquidity Facility Provider, if any, provided that if such Credit Facility Provider is the same entity as the Liquidity Facility Provider, or if such Liquidity Facility Provider is also being replaced, such consent will not be required.

The Authority will not rescind or terminate an existing Credit Facility unless the Ratings of such existing Credit Facility Provider have been downgraded below "Aa" and "AA" or their equivalent, respectively, and such an Alternate Credit Facility is in effect.

THE SERIES 1997A LIQUIDITY FACILITY

Standby Bond Purchase Agreement

The Remarketing Agent will continually offer for sale and use its best efforts to sell any Series 1997A Bonds with respect to which a notice of optional tender has been received or which are subject to mandatory tender at a price equal to the principal amount thereof plus accrued interest, if any. If the Remarketing Agent is not able to remarket the Series 1997A Bonds upon an optional or mandatory tender thereof, Student Loan Marketing Association ("*Sallie Mae*") has agreed to purchase such Series 1997A Bonds pursuant to the provisions of the Series 1997A Liquidity Facility. The Purchase Price thereof is equal to the unpaid principal amount thereof plus accrued interest, if any, thereon to the respective Purchase Date; provided, however, accrued interest will not be included if the Purchase Date is also an Interest Payment Date.

Student Loan Marketing Association

The following information concerning Sallie Mae has been obtained from Sallie Mae for inclusion herein. The information contained in such material is not guaranteed as to accuracy or completeness by the Authority, the Underwriter, their respective counsel or Bond Counsel, and is not to be construed as a representation by any of those persons. None of the Authority, the Underwriter, their respective counsel or Bond Counsel 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 hereof.

The Student Loan Marketing Association ("*Sallie Mae*") is a stockholder-owned corporation established by the 1972 amendments to the Higher Education Act, to provide liquidity, primarily through secondary market and warehousing activities, for lenders participating in the Federal Family Education Loan Program ("*FFELP*") and the Health Education Assistance Loan Program. Under the Higher Education Act, Sallie Mae is authorized to purchase, warehouse, sell and offer participations or pooled interests in, or otherwise deal in, student loans, including but not limited to, loans insured under the FFELP, and to make commitments for any of the foregoing. Sallie Mae is also authorized to buy, sell, hold, underwrite and otherwise deal in obligations of eligible lenders, if such obligations are issued by such eligible lender for the purpose of making or purchasing federally guaranteed student loans under the Higher Education Act. As a federally chartered corporation, Sallie Mae's structure and operational authorities are subject to revision by amendments to the Higher Education Act or other federal enactments.

The United States Government is not a party to the Liquidity Facility Agreement, nor has it in any way guaranteed Sallie Mae's obligations thereunder.

On September 30, 1996, President Clinton signed into law the Student Loan Marketing Association Reorganization Act of 1996, Pub. Law 104-208, authorizing the restructuring of Sallie Mae as a fully private state-chartered corporation. As permitted by legislation, Sallie Mae's Board of Directors adopted a reorganization plan on January 24, 1997 which plan is expected to be submitted to Sallie Mae's shareholders for their approval on May 15, 1997. The plan provides that the existing Sallie Mae government-sponsored enterprise ("*GSE*") will become a subsidiary of a state-chartered holding company. The GSE will liquidate and dissolve on or before September 30, 2008. The legislation provides that the reorganization will not affect the legal status of standby bond purchase agreements executed by Sallie Mae as a GSE which are outstanding as of the effective date of the reorganization.

As of December 31, 1996, on a consolidated basis, Sallie Mae had total assets of approximately \$47.630 billion, total liabilities of approximately \$46.582 billion and total stockholders' equity of approximately \$1.048 billion. For the year ended December 31, 1996, Sallie Mae's net income was approximately \$419 million.

Reference is hereby made to the financial and other information concerning Sallie Mae contained in Sallie Mae's Information Statement, dated February 14, 1997 (including audited financial statements for the years ended December 31, 1996 and 1995). Copies of the February 14, 1997 Information Statement and any update and subsequent quarterly information statements are available without charge upon written request to the Investor Relations Division of Sallie Mae at 1050 Thomas Jefferson Street, N.W., Washington, D.C. 20007, telephone 202-298-3144.

Summary of Series 1997A Liquidity Facility Provisions

The following is a summary description of certain provisions of the Series 1997A Liquidity Facility. This summary does not purport to be complete or to cover all sections of the Series 1997A Liquidity Facility. Reference is hereby made to the Series 1997A Liquidity Facility for the complete provisions thereof. The Series 1997A Credit Facility does not insure the Purchase Price of the purchase of tendered Series 1997A Bonds.

Bond Purchase Period. Unless earlier terminated or extended pursuant to the provisions of the Series 1997A Liquidity Facility, Sallie Mae's commitment to purchase Series 1997A Bonds in the event they are not remarketed by the Remarketing Agent will extend from the issuance of the Series 1997A Bonds through May 1, 2002 (the "*Bond Purchase Period*").

Available Commitment Amount. During the Bond Purchase Period, subject to the terms and conditions of the Series 1997A Liquidity Facility, Sallie Mae agrees to purchase Series 1997A Bonds at the principal amount thereof plus accrued but unpaid interest thereon in aggregate principal and interest amounts purchased on any business day during the Bond Purchase Period that does not exceed the Available Commitment. As used herein, "Available Commitment" means:

A. The initial principal amount of \$33,000,000 as automatically adjusted, from time to time, (i) *downward* by the principal amount of Series 1997A Bonds redeemed or converted to a Fixed Rate by the Authority, (ii) *downward* by the principal amount of funds made available by Sallie Mae to purchase Series 1997A Bonds that have been tendered or are deemed tendered for purchase, and (iii) *upward* by the principal amount of any Series 1997A Bonds purchased by Sallie Mae that are resold by the Remarketing Agent; and

B. The initial interest amount of \$2,007,123 (185 days interest on the Series 1997A Bonds at the rate of 12% per annum) as automatically adjusted (i) *downward* by an amount that bears the same proportion as any reduction in the principal commitment bears to \$33,000,000, and (ii) *upward* by an amount that bears the same proportion to such initial amount as the amount of any upward adjustment of the principal commitment bears to \$33,000,000. In addition, the Series 1997A Liquidity Facility currently provides for an increase in the Available Commitment through May 1, 2002 at the Authority's option solely with respect to Additional Bonds in an aggregate amount not to exceed \$168,000,000 upon the issuance of any Additional Bonds.

Sallie Mae's obligation to fund under the Available Commitment is subject to, among other things, timely receipt of notices; lack of receipt of funds by the Tender Agent from remarketing the Series 1997A Bonds or from moneys available under the Bond Resolution; and that the Tender Agent, the Remarketing Agent and the Authority shall have performed their respective obligations.

THE SERIES 1997A LIQUIDITY FACILITY IS NOT DESIGNED TO PROVIDE CREDIT ENHANCEMENT OR CREDIT SUBSTITUTION. UPON THE HAPPENING OF CERTAIN EVENTS, SALLIE MAE'S COMMITMENT UNDER THE SERIES 1997A LIQUIDITY FACILITY MAY BE SUSPENDED OR TERMINATED WITHOUT THE OWNERS OF THE SERIES 1997A BONDS HAVING A RIGHT TO TENDER THEIR SERIES 1997A BONDS.

Suspension or Termination Without Tender Rights. In the event that principal or interest on the Series 1997A Bonds is not paid by the Authority when due (and such amounts are not paid by the Series 1997A Insurer as required by the Series 1997A Credit Facility), or certain actions or proceedings relating to bankruptcy or insolvency by or in respect to the Series 1997A Insurer are instituted, then the Available Commitment and Sallie Mae's obligation to purchase Series 1997A Bonds will *immediately* terminate without notice and Sallie Mae will be under no obligation to purchase Series 1997A Bonds.

In certain events of lack of validity or enforceability of the Series 1997A Credit Facility, Sallie Mae's obligation to purchase Series 1997A Bonds will be *suspended* without notice and Sallie Mae will be under no obligation to purchase Series 1997A Bonds whether or not a notice of purchase has been delivered by the Tender Agent prior to such occurrence. If a non appealable court order is entered regarding such lack of validity or enforceability of the Series 1997A Credit Facility (or a material provision thereof), then Sallie Mae's obligation to purchase Series 1997A Bonds will *terminate* immediately; and, if the contested provisions are upheld in their entirety by such court order, Sallie Mae's obligations under the Series 1997A Liquidity Facility will be reinstated automatically.

Termination with Tender Rights. In the case of non-payment of the quarterly facility fee under the Series 1997A Liquidity Facility, Sallie Mae may give written notice specifying the commitment termination date (not less than 30 days from the date notice was received by the Tender Agent) on which the Available Commitment shall terminate. On such commitment termination date, the Available Commitment will terminate and Sallie Mae will be under no further obligation to fund the purchase of any Series 1997A Bonds.

Replacement of Sallie Mae. The Authority may terminate the Available Commitment and replace the Series 1997A Liquidity Facility with an Alternate Liquidity Facility: (i) on forty-five (45) days' written notice in the event the rating on short term obligations issued by Sallie Mae shall have been reduced to a category below "P-1" or "A-1" or their equivalent by Moody's or S&P, respectively; (ii) if Sallie Mae imposes certain increased costs under its Series 1997A Liquidity Facility; and (iii) if the Bond Purchase Period is not extended by the Authority and Sallie Mae pursuant to the provisions thereof.

Such termination and replacement will not be effective unless the provider of such Alternate Liquidity Facility shall have purchased all Series 1997A Bonds owned by Sallie Mae and any other sums owing to Sallie Mae to the date of such termination and replacement shall have been paid in full.

ALTERNATE LIQUIDITY FACILITY

The Authority may replace, and will replace upon the written request by the Series 1997A Credit Facility Provider, an existing Liquidity Facility with an Alternate Liquidity Facility at any time, and shall replace an existing Liquidity Facility with an Alternate Liquidity Facility if the Ratings of the existing Liquidity Facility Provider have been downgraded below "P-1" or "A-1" or their equivalent, respectively. The Authority must give the Trustee no less than thirty (30) days' written notice of its intention to replace an existing Liquidity Facility with an Alternate Liquidity Facility. An Alternate Liquidity Facility shall be intended to remain in full force and effect for at least one year.

On or prior to the effective date of such replacement, the Authority must furnish to the Trustee: (i) an opinion of nationally recognized bond counsel that the delivery of such Alternate Liquidity Facility to the Authority is authorized under the Bond Resolution and that it will not adversely affect the exemption from federal income taxation of interest on the Bonds and Notes under the Code; (ii) written evidence from each Rating Agency that the substitution of the proposed Alternate Liquidity Facility for the existing Liquidity Facility will not, by itself, result in a reduction of its Rating of the Bonds and Notes from that which prevailed when the existing Liquidity Facility was last in effect or a withdrawal of its Ratings on the Bonds and Notes; and (iii) the prior written consent of the Credit Facility Provider, provided that if such Credit Facility Provider is the same entity as the Liquidity Facility Provider being replaced, or if such Credit Facility Provider is also being replaced, such consent will not be required.

The Authority will not otherwise rescind or terminate an existing Liquidity Facility unless such an Alternate Liquidity Facility is in effect, or all of the applicable series of Bonds and Notes have been converted to a Fixed Rate.

DESCRIPTION OF THE SERIES 1997A BONDS

The Series 1997A Bonds are available in Book Entry form only. See the caption "SECURITIES DEPOSITORY" herein. As long as Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York, is the Registered Owner of the Series 1997A Bonds, references herein to the Registered Owners of the Series 1997A Bonds mean Cede & Co. and do not mean the Beneficial Owners of the Series 1997A Bonds.

General

The Bond Resolution will authorize, among other things: (i) the issuance of the Series 1997A Bonds; (ii) the transfer of fully disbursed Financed Eligible Loans and other assets to the Trust Estate; (iii) the creation and administration of various Funds and Accounts, including the Debt Service Reserve Account in its required amount; and (iv) the execution and delivery of the various related documents pertaining to the issuance of the Series 1997A Bonds.

The Series 1997A Bonds will be dated the date of issuance and, subject to the redemption and mandatory tender provisions described herein, will mature on December 1, 2026.

The Series 1997A Bonds will be issued only in fully registered form without coupons in principal amounts of \$100,000 or any integral multiple of \$5,000 over \$100,000. When issued, DTC will act as securities depository (the "*Securities Depository*") for the Series 1997A Bonds. The Series 1997A Bonds will be issued initially in fully registered form registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for the Series 1997A Bonds 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 1997A Bonds.

Interest on the Series 1997A Bonds

The Series 1997A Bonds initially will bear interest at the Weekly Rate. Interest on the Series 1997A Bonds will be payable semi-annually on June 1 and December 1 of each year, commencing December 1, 1997. Interest payable on the Series 1997A Bonds will be computed: (i) if at a Variable Rate, on the basis of a 365 or 366-day year, as appropriate, and the actual days elapsed; and (ii) if at a Fixed Rate, on the assumption that each year contains 360 days and is composed of twelve 30-day months.

Interest payments on the Series 1997A Bonds are to be made by the Trustee to the persons who are the Registered Owners thereof (initially, Cede & Co.) as of the Record Date. See the caption "SECURITIES DEPOSITORY" herein for a description of how the Securities Depository, as the Registered Owner of the Series 1997A Bonds, is expected to disburse such payments to the Beneficial Owners.

Until the Fixed Rate Conversion Date established for the Series 1997A Bonds, from time to time, the Authority may designate different Variable Rates to be applicable to the Series 1997A Bonds (each a "*Conversion*") and to be effective on any Conversion Date established for the Series 1997A Bonds. Notice of such Conversion shall be given as described herein.

The Series 1997A Bonds will bear interest in one of the following interest rate modes: (i) any Variable Rate (which includes a Weekly Rate, a Quarterly Rate, a Semiannual Rate and an Annual Rate); or (ii) a Fixed Rate. The Series 1997A Bonds will bear interest during the first Weekly Rate Period (which shall extend from the date of closing through May 20, 1997) at a rate to be determined by the Remarketing Agent on or about May 8, 1997, and thereafter will bear interest as Weekly Rate Bonds until the initial Conversion Date.

Determination of Interest Rates

Interest Rates on the Series 1997A Bonds will be determined as follows for Weekly Rate Bonds, Quarterly Rate Bonds, Semiannual Rate Bonds, Annual Rate Bonds and Fixed Rate Bonds.

A. *For Weekly Rate Bonds*, the Interest Rate for any Weekly Rate Period will be the rate established for such Weekly Rate Period by the Remarketing Agent no later than 12:00 p.m., New York City time, on the first day of such Weekly Rate Period as being the minimum rate of interest necessary, in the best professional judgment of the Remarketing Agent taking into account prevailing market conditions, to enable the Remarketing Agent to sell all of the Weekly Rate Bonds in the secondary market on the date such rate is set at a price equal to the principal amount thereof, plus accrued interest.

B. *For Quarterly Rate Bonds*, the Interest Rate for any Quarterly Rate Period will be the rate established for such Quarterly Rate Period by the Remarketing Agent no later than 12:00 p.m., New York City time, on the first day of such Quarterly Rate Period as being the minimum rate of interest necessary, in the best professional judgment of the Remarketing Agent taking into account prevailing market conditions, to enable the Remarketing Agent to sell all of the Quarterly Rate Bonds in the secondary market on the date such rate is set at a price equal to the principal amount thereof, plus accrued interest.

C. *For Semiannual Rate Bonds*, the Interest Rate for any Semiannual Rate Period will be the rate established for such Semiannual Rate Period by the Remarketing Agent no later than 12:00 p.m., New York City time, on the first day of such Semiannual Rate Period as being the minimum rate of interest necessary, in the best professional judgment of the Remarketing Agent taking into account prevailing market conditions, to enable the Remarketing Agent to sell all of the Semiannual Rate Bonds in the secondary market on the date such rate is set at a price equal to the principal amount thereof, plus accrued interest.

D. *For Annual Rate Bonds*, the Interest Rate for any Annual Rate Period will be the rate established for such Annual Rate Period by the Remarketing Agent no later than 12:00 p.m., New York City time, on the first day of such Annual Rate Period as being the minimum rate of interest necessary, in the best professional judgment of the Remarketing Agent taking into account prevailing market conditions, to enable the Remarketing Agent to sell all of the Annual Rate Bonds in the secondary market on the date such rate is set at a price equal to the principal amount thereof, plus accrued interest.

E. *For Fixed Rate Bonds*, the Interest Rate will be an annual rate established by the Remarketing Agent on or prior to the first day on which the Series 1997A Bonds bear the Fixed Rate as being, in the best professional judgment of the Remarketing Agent taking into account prevailing market conditions, the minimum fixed rate of interest which would be necessary to enable the Remarketing Agent to sell all of the Fixed Rate Bonds in a secondary market transaction at a price equal to the principal amount thereof, plus accrued interest.

Series 1997A Bonds while owned by a Liquidity Facility Provider will bear interest at the Bank Rate which shall be the lesser of: (i) the maximum rate permitted by applicable law; or (ii) the rates provided in the applicable Liquidity Facility. If such Bank Bonds are sold pursuant to the remarketing provisions of the Bond Resolution, such Bank Bonds will bear interest from the date of sale calculated as though such Series 1997A Bonds did not bear interest at the Bank Rate. The differential interest due to the Liquidity Facility Provider on Bank Bonds sold between Interest Payment Dates will be paid to the applicable Liquidity Facility Provider on the remarketing thereof, but no more frequently than monthly.

In the event that the Remarketing Agent no longer determines, or fails to determine, an Interest Rate pursuant to paragraphs A through E above, or if for any reason such manner of determination shall be held to be invalid or unenforceable by a court of law, the interest rate or rates for the next succeeding interest period will be as follows (subject to the Maximum Rate):

A. *For Weekly Rate Bonds*, that interest rate for each Weekly Rate Period equal to the PSA Municipal Swap Index or, in the event such index is no longer in existence, 85% of the 15-day dealer taxable commercial paper rate as most recently published by the Federal Reserve Bank of New York next preceding the first day of such Weekly Rate Period, but effective as of such first day of the Weekly Rate Period; and

B. *For Quarterly Rate Bonds, Semiannual Rate Bonds and Annual Rate Bonds*, that annual rate of interest equal to 85% of the rate listed in the table most recently circulated by the United States Treasury Department known as "Table [applicable dates shown on the most recent table], Maximum Interest Rates Payable on United States Treasury Certificates of Indebtedness, Notes and Bonds-State and Local Government Series Subscribed for During Period [applicable dates shown on the most recent table]" or any subsequent and substantially equivalent table circulated by the United States Treasury Department for the maturity most closely approximating the duration, as the case may be, of the Quarterly Rate Period, the Semiannual Rate Period or the Annual Rate Period.

Any Weekly Rate Bond with regard to which demand is not made for optional tender or mandatory tender will be deemed to have been remarketed to the Registered Owner thereof at the Variable Rate and on the terms provided for in the Series 1997A Bond Resolution. All Quarterly Rate Bonds, Semiannual Rate Bonds and Annual Rate Bonds are subject to mandatory tender on the Business Day succeeding such Quarterly Rate Period, Semiannual Rate Period and Annual Rate Period.

Any determination of an Interest Rate shall be conclusive and binding upon the Authority, the Trustee, the Tender Agent, the Remarketing Agent, the Credit Facility Provider, the Liquidity Facility Provider and the Registered Owners of the Bonds and Notes.

Interest payable on the Series 1997A Bonds will never exceed the Maximum Rate, except as provided for with respect to Bank Bonds.

Conversion of Interest Rate

The interest rates on the Series 1997A Bonds (except for Fixed Rate Bonds, which are not subject to Conversion) are subject to Conversion from one interest rate mode to another (including from one interest rate mode within the Variable Rates to another interest rate mode within the Variable Rates), in whole and not in part, at the option of the Authority, by mailing a notice to the Trustee, the Tender Agent, the Credit Facility Provider, the Liquidity Facility Provider and the Remarketing Agent at least thirty (30) days (twenty (20) days in the event of Conversion from one interest rate mode within the Variable Rates to another interest rate mode within the Variable Rates) before the Conversion Date accompanied by a preliminary opinion of nationally recognized municipal bond counsel stating that such Conversion is authorized and in accordance with the Bond Resolution and will not adversely affect the exemption of the interest on any of the Bonds and Notes from federal income taxation under the Code. On the Conversion Date as a necessary condition to such Conversion, the Authority will deliver to the Trustee and the Credit Facility Provider an opinion of nationally recognized municipal bond counsel confirming the preliminary opinion as of such Conversion Date.

In the event that such confirming opinion of bond counsel is not so delivered on the Conversion Date, the intended Conversion will not take place and interest on the Series 1997A Bonds for which the Conversion was intended will be determined on the basis of the Weekly Rate.

If the interest rate on any Series 1997A Bond is to be converted to a Fixed Rate, the interest rate on all Series 1997A Bonds must be converted to a Fixed Rate.

The prior written consent of the Credit Facility Provider will be required for any such Conversion.

The Trustee will give notice by mail to the Registered Owners of the Series 1997A Bonds when the interest rate is to be converted not less than twenty-five (25) days (fifteen (15) days for a Conversion from one Variable Rate mode to another) prior to the Conversion Date. Such notice will state, among other things: (i) that such Series 1997A Bonds are being converted, as set forth in the notice from the Authority; (ii) the Conversion Date; (iii) that every Series 1997A Bond (with an appropriate transfer of registration executed in blank in form satisfactory to the Tender Agent) must be delivered to the Tender Agent (at its designated office) not later than the Conversion Date or the next succeeding Business Day if not a Business Day and, in the absence of such delivery, will be deemed to have been delivered and purchased; and (iv) the Purchase Price the Authority will pay for the Series 1997A Bonds on such Purchase Date, that no interest will accrue to the benefit of such Registered Owners after the Purchase Date, and that every Outstanding Series 1997A Bond subject to the Conversion will be purchased by the Tender Agent on the Purchase Date or the next succeeding Business Day if not a Business Day.

In the event that the intended Conversion does not take place, the Trustee will give notice immediately to the Liquidity Facility Provider and, within a reasonable time, but not more than twenty-five (25) days after the proposed Conversion Date, give notice to the Registered Owners, in the manner in which notice of redemption was given, that such Conversion did not take place.

While the Series 1997A Bonds are in a Variable Rate mode, there shall be in effect a Credit Facility or Alternate Credit Facility and Liquidity Facility or Alternate Liquidity Facility with respect to the Series 1997A Bonds. The Series 1997A Liquidity Facility is not required to remain in effect after conversion of the interest rates on all Series 1997A Bonds to a Fixed Rate.

Purchase of Weekly Rate Bonds on Demand

So long as a Liquidity Facility for a series of Bonds and Notes is in effect, any Weekly Rate Bond of such series of Bonds and Notes will be purchased, on the demand of the Registered Owner or Beneficial Owner thereof, on any Business Day designated by the Registered Owner or Beneficial Owner thereof which is not less than seven (7) days after the date of such demand at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date, upon telephonic notice to the Tender Agent and the Remarketing Agent at their designated offices and confirmed by written notice to the Tender Agent and the Remarketing Agent (at their designated offices) not later than the third Business Day prior to the Purchase Date, which notice: (i) states the number and principal amount (or portion thereof in an Authorized Denomination provided that after giving effect to such tender, the portion of Series 1997A Bonds not tendered is also in an Authorized Denomination) of such Weekly Rate Bond to be purchased; (ii) states the Purchase Date on which such Weekly Rate Bond will be purchased pursuant to the Series 1997A Bond Resolution; and (iii) irrevocably requests such purchase. The Series 1997A Credit Facility does not insure the Purchase Price of such purchase of tendered Series 1997A Bonds.

IF THE SERIES 1997A LIQUIDITY FACILITY HAS BEEN TERMINATED IN ACCORDANCE WITH ITS TERMS, THE SERIES 1997A BONDS WILL NO LONGER BE SUBJECT TO OPTIONAL TENDER. IN ADDITION, SERIES 1997A THE LIQUIDITY FACILITY MAY BE TERMINATED WITHOUT REQUIRING A MANDATORY TENDER OF THE SERIES 1997A BONDS UPON THE TERMINATION OF THE SERIES 1997A CREDIT FACILITY OR THE BANKRUPTCY OF THE SERIES 1997A CREDIT FACILITY PROVIDER. SEE THE CAPTION "INVESTMENT CONSIDERATIONS — THE SERIES 1997A LIQUIDITY FACILITY" HEREIN.

Any Weekly Rate Bond with regard to which demand is made will be deemed to have been tendered for purchase on the Purchase Date. Delivery of such Weekly Rate Bond (with an appropriate transfer of registration executed in blank in form satisfactory to Tender Agent) at the designated office of Tender Agent at or prior to 11:30 a.m., New York City time, on the date specified in the notice will be required for payment in same day funds of the purchase price due on such Purchase Date. No Registered Owner will be entitled to payment of the purchase price due on such Purchase Date except upon surrender of such Weekly Rate Bonds as set forth herein.

If the Purchase Date is also an Interest Payment Date, the Purchase Price will not include accrued interest.

So long as the Authority utilizes a Book Entry System for the Series 1997A Bonds, evidence of ownership and an assignment sufficient to transfer the beneficial ownership of a tendered Series 1997A Bond to the Tender Agent or its assignee shall be deemed to be presentation and surrender of the Series 1997A Bond for purposes hereof. See the caption "SECURITIES DEPOSITORY" herein.

On the date Series 1997A Bonds are to be purchased on a demand tender option, the Series 1997A Bonds will be purchased only from the funds listed below, at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the date of purchase. Funds for the payment of such purchase price will be derived from the following sources in the order of priority indicated and none of the Authority, the Trustee, the Tender Agent or the Remarketing Agent will be obligated to provide funds from any other source. At the request of the Tender Agent, the Trustee and the Remarketing Agent will deliver any moneys held by them from such sources in such order to the Tender Agent: (i) proceeds of the sale of such Series 1997A Bonds pursuant to remarketing; and (ii) proceeds of a payment pursuant to the Series 1997A Liquidity Facility.

The Tender Agent will: (i) hold all Series 1997A Bonds delivered to it in trust for the benefit of the respective Registered Owners until moneys representing the Purchase Price of such Series 1997A Bonds have been delivered to or for the account of or to the order of such Registered Owners; and (ii) hold all moneys delivered to it for the purchase of such Series 1997A Bonds in trust uninvested for the benefit of the person or entity which shall have so delivered such moneys until the Series 1997A Bonds have been delivered to or the account of such Person.

No Purchases or Sales after Termination of Series 1997A Liquidity Facility; Notice of Pending Termination. There shall be no purchases or sales of Series 1997A Bonds if there shall have been a termination of the Series 1997A Liquidity Facility and the Tender Agent has been informed of such termination. The Trustee shall give immediate notice of such termination by telecommunication to the Remarketing Agent, the Tender Agent (together with a copy of the notice to be sent to the Registered Owners), the Series 1997A Credit Facility Provider and the Series 1997A Liquidity Facility Provider. The Trustee shall cause the Tender Agent to give notice to the Registered Owners by mail of: (i) the termination of the Series 1997A Liquidity Facility and that such termination results in no purchases or sales of Series 1997A Bonds being permitted pursuant to the Series 1997A Bond Resolution; and (ii) substitution of an Alternate Liquidity Facility and that in consequence of such substitution purchases and sales are again permitted pursuant to the Bond Resolution.

In addition, upon the Trustee's receipt of written notice from the Authority, the Series 1997A Liquidity Facility Provider or the Series 1997A Credit Facility Provider of pending termination (without substitution) of the Series 1997A Liquidity Facility or Series 1997A Credit Facility, the Trustee shall, as soon thereafter as is reasonably practicable, notify the Tender Agent and the Remarketing Agent by registered mail, return receipt requested (and also by telex, telecopy or similar means), of such fact. The Trustee shall cause the Tender Agent to notify all Registered Owners of the Series 1997A Bonds by registered mail, return receipt requested, of such fact. The notice shall state (i) the expected date of termination; (ii) that on such date the Registered Owners' right to request purchase of Series 1997A Bonds by the Tender Agent will not exist; and (iii) that the ratings of Rating Agencies, if any, of the Series 1997A Bonds in effect as of such date will cease to apply.

Mandatory Tender and Purchase

Quarterly, Semiannual and Annual Rate Periods. So long as a Liquidity Facility for a series of Bonds and Notes is in effect, all Quarterly Rate Bonds, Semiannual Rate Bonds and Annual Rate Bonds of such series of Bonds and Notes shall be delivered to the Tender Agent on the Business Day succeeding each Quarterly Rate Period, Semiannual Rate Period and Annual Rate Period for

purchase (with all necessary endorsements) and purchased at a price equal to the principal amount thereof plus accrued interest, if any.

Conversion. So long as a Series 1997A Liquidity Facility is in effect, on any Conversion with respect to any Series 1997A Bonds, all such Series 1997A Bonds (other than Bank Bonds) shall be delivered to the Tender Agent for purchase (with all necessary endorsements) and purchased at a price equal to the principal amount thereof plus accrued interest, if any.

Facility Substitution or Expiration. So long as a Series 1997A Liquidity Facility is in effect, on any Facility Substitution Date or Expiration Date, all Series 1997A Bonds shall be delivered to the Tender Agent for purchase (with all necessary endorsements) and purchased at a price equal to the principal amount thereof plus accrued interest, if any. Notice of a Facility Substitution or Expiration shall be given in accordance with the Series 1997A Bond Resolution.

Source of Funds. The Purchase Price of the Series 1997A Bonds purchased pursuant to mandatory tender will be paid from the following sources in the order of priority indicated and none of the Authority, the Trustee, the Tender Agent or the Remarketing Agent will be obligated to provide funds from any other source. At the request of the Tender Agent, the Trustee and the Remarketing Agent shall deliver any moneys held by them from such sources in such order to the Tender Agent: (i) proceeds of the sale of such Series 1997A Bonds pursuant to remarketing; and (ii) proceeds of a payment pursuant to the Series 1997A Liquidity Facility. The Series 1997A Credit Facility does not insure the Purchase Price of such purchase of tendered Series 1997A Bonds. IF THE SERIES 1997A LIQUIDITY FACILITY HAS BEEN TERMINATED IN ACCORDANCE WITH ITS TERMS, THE SERIES 1997A BONDS WILL NO LONGER BE SUBJECT TO MANDATORY TENDER. IN ADDITION, THE SERIES 1997A LIQUIDITY FACILITY MAY BE TERMINATED WITHOUT REQUIRING A MANDATORY TENDER OF THE SERIES 1997A BONDS UPON THE TERMINATION OF THE SERIES 1997A CREDIT FACILITY OR THE BANKRUPTCY OF THE SERIES 1997A CREDIT FACILITY PROVIDER. SEE THE CAPTION "INVESTMENT CONSIDERATIONS - THE SERIES 1997A LIQUIDITY FACILITY" HEREIN.

Deemed Tender. Series 1997A Bonds to be purchased in accordance with a mandatory tender for purchase which are not delivered to the Tender Agent will nevertheless be deemed to have been delivered by the Registered Owners thereof, whereupon interest accruing on and after such mandatory tender date on such Series 1997A Bonds will no longer be payable to the former Registered Owners but will be paid to the new Registered Owners thereof. In such event, the Authority will execute and the Trustee will authenticate and deliver new Series 1997A Bonds. Interest payable on such date will be paid to the Registered Owners of such Series 1997A Bonds as of the Record Date next preceding such Interest Payment Date. The former Registered Owner will have recourse solely to the funds held by the Tender Agent for the purchase of such Series 1997A Bonds, which shall be paid to the former Registered Owner by the Tender Agent upon presentation and surrender of such Series 1997A Bonds endorsed for transfer with signature guaranty satisfactory to the Tender Agent. No other transfer of such Series 1997A Bonds after the mandatory tender date shall be recognized.

Failed Conversion. If for any reason an intended Conversion does not take effect on a Conversion Date: (i) from and after the proposed Conversion Date until any subsequent Conversion, the Series 1997A Bonds as to which the Conversion failed will bear interest at the Weekly Rate; and (ii) the mandatory purchase of Series 1997A Bonds as to which the Conversion was to relate will nevertheless remain effective and will occur as if the Conversion had taken effect if the Trustee has notified the Registered Owners of the proposed Conversion.

Substitution. If for any reason an intended substitution of a Series 1997A Liquidity Facility or Credit Facility does not take effect on the specified date, the mandatory purchase of Series 1997A Bonds will nevertheless remain effective and will occur as if the substitution had taken effect if the Trustee has notified the Registered Owners of the proposed Conversion. The Series 1997A Liquidity Facility will not be released until all principal, interest and Purchase Price of the Series 1997A Bonds payable therefrom have been paid.

Book Entry System. So long as the Authority utilizes a Book Entry System for the Series 1997A Bonds, evidence of ownership and an assignment sufficient to transfer the Beneficial Ownership of a tendered Series 1997A Bond to the Tender Agent or its assignee will be deemed to be presentation and surrender of the Series 1997A Bond. See the caption "SECURITIES DEPOSITORY" herein.

Redemption Provisions

The Series 1997A Bonds are subject to redemption by or on behalf of the Authority upon notice as described under the caption "DESCRIPTION OF THE SERIES 1997A BONDS - Notice of Redemption" herein. If less than all Series 1997A Bonds that are outstanding are to be redeemed, the particular obligations to be redeemed will be selected (and redeemed only in Authorized Denominations) as described under the caption "DESCRIPTION OF THE SERIES 1997A BONDS - Partial Redemption" herein.

Optional Redemption. The Series 1997A Bonds are subject to optional redemption under certain conditions.

A. *Prior to the Fixed Rate Conversion Date,* the Series 1997A Bonds will be subject to redemption at the option of the Authority (with the written consent of the Credit Facility Provider) on any Business Day in the principal amount of an Authorized Denomination at a redemption price equal to the principal amount thereof plus accrued interest, if any, in whole or in part from Available Moneys.

B. *After conversion to a Fixed Rate,* the Series 1997A Bonds will be subject to redemption at the option of the Authority (with the written consent of the Credit Facility Provider), in the principal amount of an Authorized Denomination in whole or in part from Available Moneys.

The Fixed Rate Bonds will not be subject to optional redemption for the first five (5) years after the Fixed Rate Conversion Date. On and after the fifth anniversary of the Fixed Rate Conversion Date, the Series 1997A Bonds will be subject to redemption in whole at any time, or in part on any Interest Payment Date thereafter at a redemption price of 102% of the principal amount thereof, which price shall decline by 1/2 of 1% per annum on each anniversary of such Fixed Rate Conversion Date to 100% (i.e., 100% on and after the ninth anniversary of such Fixed Rate Conversion Date).

C. *Extraordinary Optional Redemption.* In addition, the Series 1997A Bonds are subject to extraordinary optional redemption, in whole or in part, in Authorized Denominations on any Business Day at the principal amount thereof, plus accrued interest to the date set for redemption, if the Authority suffers unreasonable burdens or excessive liabilities in connection with the operation of its program for originating, purchasing or financing student loans (the "Program") or the redemption of the Series 1997A Bonds is required or necessary under applicable law or regulations of the Secretary to enable the Authority to continue to receive various federal benefits, all as evidenced by a certificate of the Authority addressed to the Trustee and the Credit Facility Provider.

The Trustee will redeem all Outstanding Bank Bonds prior to optional redemption or extraordinary optional redemption of any other Series 1997A Bond.

Mandatory Redemption. The Series 1997A Bonds are subject to mandatory redemption by the Authority, in whole or in part, on any Business Day at a Redemption Price equal to the principal amount thereof being redeemed, plus accrued interest to the date set for redemption, in Authorized Denominations, from moneys on deposit in the Series 1997A Principal Subaccount:

A. Which are not derived from the voluntary sale or disposition of Eligible Loans and which the Authority determines (as indicated in an order given to the Trustee at least forty-five (45) days before the redemption date) are not available or are not expected to be used to acquire Eligible Loans;

B. Which represent moneys deposited therein on the Date of Issuance of the Series 1997A Bonds which have not been used to acquire Eligible Loans by November 15, 1998 or such later date acceptable to the Credit Facility Provider; or

C. Which represent Recoveries of Principal from Eligible Loans acquired directly or indirectly with the proceeds of the Series 1997A Bonds and not to be used for Recycling (i.e. which remain on deposit for 180 days).

See the captions "SECURITY AND SOURCES OF PAYMENT - Flow of Funds" and "- Creation of Accounts" herein.

All Series 1997A Bonds constituting Bank Bonds are subject to mandatory redemption, in whole only, on the date which is five (5) years after the Expiration Date of the Series 1997A Liquidity Facility at their Redemption Price, plus accrued interest at the Bank Rate to the redemption date.

The Series 1997A Bonds to be redeemed pursuant to mandatory redemption will be redeemed only in the principal amount of an Authorized Denomination; provided that a Series 1997A Bond must be left Outstanding in an Authorized Denomination or must be redeemed in whole. The Series 1997A Bonds or portions of the Series 1997A Bonds to be redeemed will be selected by lot or in such other manner as the Trustee in its discretion may deem fair, except that Bank Bonds will be redeemed prior to any other Series 1997A Bonds.

Partial Redemption

If less than all of the Series 1997A Bonds are to be redeemed, the particular Series 1997A Bonds or portions thereof to be redeemed will be selected, not more than fifteen (15) days prior to the date of notice of redemption, by the Trustee at random in such manner as the Trustee in its discretion may deem fair and appropriate. The Trustee shall treat each Series 1997A Bond to be redeemed as representing that number of Series 1997A Bonds of the lowest Authorized Denomination as is obtained by dividing the principal amount of such Series 1997A Bond by such Authorized Denomination, provided that after giving effect to such redemption, all Outstanding Series 1997A Bonds are in Authorized Denominations.

In case part but not all of an outstanding Series 1997A Bond is selected for redemption, upon surrender of such Series 1997A Bond, the Authority will execute and the Trustee will authenticate and deliver to such Registered Owner, the cost of which will be paid as a Program Expense, a new Series 1997A Bond(s) of Authorized Denominations in an aggregate principal amount equal to the unredeemed portion of the Series 1997A Bond surrendered.

Notice of Redemption

The Trustee will cause notice of redemption to be given to the Tender Agent, the Remarketing Agent and the Registered Owner of any Series 1997A Bonds designated for redemption in whole or in part, by:

A. In the case of redemptions of Series 1997A Bonds (other than Bank Bonds) mailing a copy of the redemption notice by first-class mail at least fifteen (15) days prior to the redemption date; and

B. In the case of redemptions of Bank Bonds, sending a copy of the redemption notice to the Liquidity Facility Provider at least three (3) Business Days prior to the redemption date by first-class express mail, telex or telecopy with confirmation by first-class mail. The failure of the Trustee to give notice to a Registered Owner or any defect in such notice will not affect the validity of the redemption of any other Series 1997A Bonds.

Each notice of redemption will specify the Series 1997A Bonds to be redeemed, the date fixed for redemption, the place or places of payment, that payment will be made upon presentation and surrender of the Series 1997A Bonds to be redeemed, that interest, if any, accrued to the date fixed for redemption will be paid as specified in said notice, and that on and after said date interest thereon will cease to accrue. If less than all the Outstanding Series 1997A Bonds are to be redeemed, the notice of redemption shall specify the series and numbers of the Series 1997A Bonds or portions thereof to be redeemed.

With respect to any notice of redemption of Series 1997A Bonds in accordance with optional or mandatory redemptions, such notice will state that such redemption will be conditioned upon the receipt by the Trustee on or prior to the date fixed for such redemption of moneys (which shall be Available Moneys for optional redemptions), subject to the condition below, sufficient to pay the principal of, premium, if any, and interest on such Series 1997A Bonds to be redeemed, and that if such moneys will not have been so received the notice shall be of no force and effect, the Trustee will not be required to redeem such Series 1997A Bonds and all the rights of the Registered Owners prior to the redemption date shall be restored. In the event that such notice of redemption contains such a condition and such moneys are not so received, the redemption will not be made, and the Trustee will, within a reasonable time but not more than 10 days after the proposed date of redemption, give notice, in the manner in which the notice of redemption was given, that such moneys were not so received.

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 1997A 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 herein.

Transfer and Exchange

Notwithstanding the following, for so long as the Series 1997A Bonds are available only in the Book Entry System of DTC as the Securities Depository, transfers and exchanges of the Series 1997A Bonds by the Beneficial Owners thereof will occur as described under the caption "SECURITIES DEPOSITORY" herein.

Each Series 1997A Bond will be transferable only upon the books of the Authority, which will be kept for such purpose at the corporate trust office of the Trustee, by the Registered Owner thereof in person or by his attorney duly authorized in writing, upon surrender thereof, together with a written instrument of transfer satisfactory to the Trustee duly executed by the Registered Owner or his duly authorized attorney. Upon surrender for transfer of any such Series 1997A Bond, the Authority will execute and the Trustee will authenticate and deliver, in the name of the transferee, one or more new fully registered Series 1997A Bonds of the same aggregate principal amount as the surrendered Series 1997A Bond.

The Authority, the Tender Agent and the Trustee will deem and treat the person in whose name any Outstanding Series 1997A Bond is registered upon the books of the Authority as the absolute owner thereof, whether such Series 1997A Bond is overdue or not, for the purpose of receiving payment of (or on account of) the principal or Redemption Price of and interest on such Series 1997A Bond and for all other purposes. Payment of the principal or Redemption Price and interest will be made only to (or upon the order of) such Registered Owner. All such payments to such Registered Owner will be valid and effectual to satisfy and discharge the liability upon such Series 1997A Bond to the extent of the sum or sums so paid, and none of the Authority, the Tender Agent and the Trustee will be affected by any notice to the contrary.

For every such exchange or transfer of Series 1997A Bonds, the Authority, the Tender Agent and the Trustee may make a charge sufficient for reimbursement of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Such sum or sums will be paid by the Registered Owner requesting such exchange or transfer as a condition precedent to the exercise of the privilege of making such exchange or transfer. None of the Authority, the Tender Agent or the Trustee will be obligated to: (i) issue, exchange or transfer any Series 1997A Bond after the Record Date next preceding a Bond Payment Date; (ii) issue, exchange or transfer any Series 1997A Bond during a period beginning at the opening of business fifteen (15) days next preceding any selection of Series 1997A Bonds to be redeemed and ending at the close of business on the date of the first mailing of notice of such redemption; or (iii) transfer or exchange any Series 1997A Bonds called or being called for redemption in whole or in part.

Mutilated, Destroyed, Lost and Stolen Series 1997A Bonds

If any mutilated Series 1997A Bond is surrendered to the Trustee, or the Trustee and the Authority receive evidence to their satisfaction of the destruction, loss or theft of any Series 1997A Bond, and there is delivered to the Trustee and the Authority such security or indemnity as may be required by them to save each of them harmless, then the Authority will execute, and, upon request by the Authority, the Trustee will authenticate and deliver, in exchange for any such mutilated Series 1997A Bond, or in lieu of any such destroyed, lost or stolen Series 1997A Bond, a new Series 1997A Bond of like tenor and principal amount, bearing a number not contemporaneously Outstanding. The Trustee will thereupon cancel any such mutilated Series 1997A Bond so surrendered. In case any such mutilated, destroyed, lost or stolen Series 1997A Bond has become or is about to become due and payable, the Authority in its discretion may pay such Series 1997A Bond instead of issuing a new Series 1997A Bond.

Upon the issuance of any new Series 1997A Bond, the Authority may require the payment by the Registered Owner thereof of a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto and any other expenses, including counsel fees, of the Authority, the Tender Agent or the Trustee, connected therewith.

SECURITIES DEPOSITORY

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, the Underwriter their respective counsel, Bond Counsel and the Trustee take no responsibility for the accuracy thereof. No representation is made by any of those as to the absence of material changes in such information subsequent to the date hereof.

DTC will act as Securities Depository for the Series 1997A Bonds. The Series 1997A Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Series 1997A 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 1997A Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 1997A Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 1997A Bond 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 1997A 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 1997A Bonds, except in the event that use of the Book Entry system for the Series 1997A Bonds is discontinued.

To facilitate subsequent transfers, all Series 1997A Bonds deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Series 1997A 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 1997A Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 1997A 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 1997A 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 1997A 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 1997A Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 1997A 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 will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

A Beneficial Owner must give notice to elect to have its Series 1997A Bonds purchased or tendered through its Participant to the Tender Agent, and will effect delivery of such Series 1997A Bonds by causing the Direct Participant to transfer the Participant's

interest in the Series 1997A Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Series 1997A Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Series 1997A Bonds are transferred by Direct Participants on DTC's records.

DTC may discontinue providing its services as securities depository with respect to the Series 1997A 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 1997A 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 1997A Bond certificates will be printed and delivered.

THE AUTHORITY, THE UNDERWRITER, THEIR RESPECTIVE COUNSEL, BOND COUNSEL AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DTC PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES 1997A BONDS: (I) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE SERIES 1997A BONDS; (II) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN THE SERIES 1997A BONDS; OR (III) REDEMPTION OR OTHER NOTICES SENT TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNERS OF THE SERIES 1997A 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.

NONE OF THE AUTHORITY, THE UNDERWRITER, THEIR RESPECTIVE COUNSEL, BOND COUNSEL OR THE TRUSTEE 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 1997A 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 ON THE SERIES 1997A 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 SERIES 1997A 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 1997A 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 1997A 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 1997A 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

Trust Estate

The Bond Resolution provides that all Bonds and Notes issued thereunder, including the Series 1997A Bonds and the principal of and interest thereon, as well as any Swap Agreement, are limited and special revenue obligations of the Authority secured by and payable 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 Revenues (other than Revenues deposited in the Rebate Fund) and Recoveries of Principal in and payable into the Funds and Accounts created by the Bond Resolution;
- B. All moneys and Investment Securities held in the Funds and Accounts created by the Bond Resolution;
- C. The Financed Eligible Loans (including the education loan promissory notes evidencing such indebtedness and related loan documentation);
- D. The rights of the Authority in and to the Authority Guarantee Agreements, the Custodian Agreement, the Servicing Agreements, and any Student Loan Purchase Agreement as such documents relate to Financed Eligible Loans;
- E. The rights of the Authority in and to any Swap Agreement and any Swap Counterparty Guarantee, provided, however, that the security interest described in this paragraph E will not be for the benefit of a Swap Counterparty with respect to its Swap Agreement; and
- F. Any and all other property, rights and interests of every kind granted, transferred or delivered from time to time to the Trustee as additional security, whether now owned or hereafter acquired.

The above property, assets and rights are collectively referred to herein as the "Trust Estate".

The Bonds and Notes, including the Series 1997A 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, or interest on, the Bonds and Notes, including the Series 1997A Bonds. The Bonds and Notes, including the Series 1997A Bonds, and the interest thereon, are not personal obligations of the trustees of the Authority and are not a general obligation of the Authority. The Authority has no taxing power.

Outstanding Parity Obligations

The Series 1997A Bonds are issued as Additional Bonds on a parity with the Series 1996A Bonds. The Series 1996A Bonds were issued on November 8, 1996 as variable rate demand obligations in an original principal amount of \$32,580,000. The Series 1996A Bonds remain outstanding in such amount and currently bear interest at weekly rates, but may be converted to bear interest at quarterly, semi-annual, annual and fixed rates. The Series 1996A Bonds and Series 1997A Bonds need not bear interest at the same rates or at the same interest rate modes. In addition, each of the Series 1996A Bonds and Series 1997A Bonds is currently supported by a separate Liquidity Facility and Credit Facility, each of which supports only its respective series of Bonds and Notes. See "INTRODUCTION-Security for the Series 1997A Bonds," herein.

Other Obligations

Except as otherwise provided in the Bond Resolution, the Authority will not create or voluntarily permit to be created any debt, lien, or charge which would be on a parity with, junior to, or prior to the lien of the Bond Resolution; will not do or omit to do or suffer to be done or omitted to be done any matter or things whatsoever whereby the lien of the Bond Resolution or the priority of such lien for the Obligations thereby secured might or could be lost or impaired; and will pay or cause to be paid or will make

adequate provisions for the satisfaction and discharge of all lawful claims and demands which if unpaid might by law be given precedence to or any equality with the Bond Resolution as a lien or charge upon the Financed Eligible Loans; provided, however, that nothing in the Bond Resolution will require the Authority to pay, discharge, or make provision for any such lien, charge, claim or demand so long as the validity thereof shall be contested by it in good faith, unless thereby, in the opinion of the Trustee, the same will endanger the security for the Obligations; and provided further than any subordinate lien thereon will be entitled to no payment from the Trust Estate, nor may any remedy be exercised with respect to such subordinate lien against the Trust Estate until all Obligations have been paid or deemed paid pursuant to the Bond Resolution. The Authority reserves the right to issue other bonds or obligations which do not constitute or create a lien on the Trust Estate.

Cash Flow Projections

The Authority anticipates that it will not issue its Series 1997A Bonds unless it believes, based on its analysis of cash flow projections which will include various cash flow scenarios including cash flow scenarios based upon the assumptions described herein, that Revenues and Recoveries of Principal to be received pursuant to the Bond Resolution will be sufficient to pay principal of and interest on the Series 1996A Bonds and Series 1997A Bonds when due, and also to pay when due all Servicing Fees, Program Expenses and Administrative Expenses until the final maturity or redemption of the Series 1996A Bonds and Series 1997A Bonds.

The Cash Flow projections related to the issuance of the Series 1997A Bonds have been prepared for the Authority by Rauscher Pierce Refsnes, Inc., Phoenix, Arizona (the "Underwriter").

Cash flow projections normally utilize assumptions, which the Authority believes are reasonable, regarding the current and future composition of and yield on the Eligible Loans, the rate of return on moneys to be invested in various Funds and Accounts under the Bond Resolution and the occurrence of future events and conditions. They also take into account various limitations or requirements under the Bond Resolution and the anticipated Recycling into new Eligible Loans during the time period allowed for Recycling. While such assumptions are and will be derived from the Authority's experience in the administration of the Program, actual circumstances can and most likely will differ from the assumptions.

See "Appendix D — CASH FLOW ASSUMPTIONS" hereto for certain information and certain assumptions about the Eligible Loans expected to be financed under the Bond Resolution as well as other assumption factors, such as Program Expenses, Servicing Fees, Administrative Expenses, interest rates, default rates and guarantee payments.

There can be no assurance that interest and principal payments from the Financed Eligible Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, or that Interest Benefit or Special Allowance Payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Authority has no control may adversely affect the Authority's actual receipt of Revenues and Recoveries of Principal pursuant to the Bond Resolution. See the caption "INVESTMENT CONSIDERATIONS - Factors Affecting Cash Flow Sufficiency" herein.

Flow of Funds

The Student Loan Act established a Student Loan Fund and a Student Loan Sinking Fund. The Bond Resolution will maintain these Funds as well as a "Repayment Account" established within the Student Loan Sinking Fund.

The Repayment Account will be used for the deposit of all Revenues and Recoveries of Principal derived from Financed Eligible Loans, all other Revenue derived from the Trust Estate, all Swap Payments, if any, with respect to Bonds and Notes, and any other amounts deposited thereto upon receipt of an Authority Order.

All Recoveries of Principal deposited in the Repayment Account to be used to finance additional Eligible Loans will be transferred, as soon as practicable, to the corresponding series Recycling Subaccount of the Loan Account of the Student Loan Fund (each, a "Recycling Subaccount", if any, and collectively, the "Recycling Subaccounts") corresponding to the series Loan Account from which such Recoveries of Principal were derived or as otherwise provided in a Supplemental Bond Resolution. Recoveries of Principal deposited to the Repayment Account and not required to be transferred to the Loan Account shall be deposited to the Series Principal Subaccounts corresponding to the series of Bond and Notes which financed the Eligible Loans from which such Recoveries of Principal were derived or as otherwise provided in a Supplemental Bond Resolution. The Authority may, by Authority Order on any Bond Payment Date, require that amounts representing Capitalized Interest Payments on the Series 1996A or Series 1997A Financed Eligible Loans, as applicable, be deducted from any subsequently received Recoveries of Principal corresponding to the Series 1996A or Series 1997A Financed Eligible Loans, as applicable, deposited to the Repayment Account and treated as Revenues for purposes of the Repayment Account. The amount of the Recoveries of Principal corresponding to the Series 1996A or Series 1997A Financed Eligible Loans, as applicable, which may be redesignated as Revenues shall not exceed, together with all previous redesignations of such Recoveries of Principal on Series 1996A or Series 1997A Financed Eligible Loans, as applicable, the amount of all Capitalized Interest Payments on the Series 1996A or Series 1997A Financed Eligible Loans, as applicable, as of such date.

Revenues deposited to the Repayment Account are to be used in the following order of priority (including reimbursement of such amounts to the Authority):

- A. To pay to the Rebate Fund on any date any rebate or excess interest payments to comply with any Investment Instructions or any Tax Regulatory Agreement;
- B. To pay any current Servicing Fees (with respect to the Financed Eligible Loans) which are due and payable;
- C. To pay any current fees and expenses of the Trustee, the Credit Facility Provider or the Liquidity Facility Provider (with respect to the Bonds and Notes) which are due and payable;
- D. To pay on each Bond Payment Date (or fund the corresponding Account of the Sinking Fund to provide for) interest on all Bonds and Notes and the amount of any Authority Swap Payment;
- E. To pay on each Bond Payment Date, on a parity basis, (or fund the corresponding Account of the Sinking Fund to provide for) the principal on any Bonds and Notes;
- F. To fund any deficiency in the Debt Service Reserve Account;
- G. To pay any other Program Expenses (with respect to the Bonds and Notes) which are due and payable;
- H. To pay Administrative Expenses (with respect to the Bonds and Notes) which are due and payable to the Authority;
- I. On June 1 and December 1 of each year, at the option of the Authority, any remaining amounts on deposit in the Repayment Account may be re-designated as Recoveries of Principal; and

J. On June 1 and December 1 of each year, upon satisfying certain collateral ratios described under the caption "SECURITY AND SOURCES OF PAYMENT - Releases to the Authority" herein, transferred to the Authority free and clear of lien of the Bond Resolution.

In addition, unless earlier terminated by the Credit Facility Provider, on and prior to June 1, 2002 (or such later date acceptable to the Credit Facility Provider) all Recoveries of Principal on Financed Eligible Loans may be used for Recycling.

If there are not sufficient moneys in the Repayment Account and the Debt Service Reserve Account to make the transfers and payments required by paragraphs A through H, the Trustee shall transfer an amount equal to such deficiency from any series Recycling subaccount or any series Loan Subaccount of the Loan Account of the Student Loan Fund to the Repayment Account to make such transfers or payments.

Creation of Accounts

The Bond Resolution has established with the Trustee the following Accounts and Subaccounts with respect to the Bonds and Notes, including the Series 1996A Bonds and the Series 1997A Bonds:

A. Within the Loan Account of the Student Loan Fund, the "Series 1996A Loan Subaccount" and the "Series 1997A Loan Subaccount" to be used to account for,

1. Original proceeds of the Series 1996A Bonds and Series 1997A Bonds, respectively, deposited thereto, and
2. Eligible Loans Financed by the proceeds of the Series 1996A Bonds and Series 1997A Bonds, respectively.

Unless otherwise agreed to in writing by the Credit Facility Provider, the Eligible Loans acquired with the proceeds of the Series 1996A Bonds and Series 1997A Bonds, respectively, as a whole shall have characteristics of interest yield, unpaid principal balance and type of eligible institution attended that fairly represent the characteristics of the total of Eligible Loans acquired by the Authority for its other portfolios.

B. The Series 1996A and Series 1997A Recycling Subaccounts to be used to account for Recoveries of Principal on the Series 1996A Bonds and Series 1997A Bonds, respectively, that are to be used to finance additional Eligible Loans. Unless otherwise agreed to in writing by the Credit Facility Provider, the Eligible Loans acquired with Recoveries of Principal deposited to the Recycling Subaccounts as a whole shall have characteristics of interest yield, unpaid principal balance and type of eligible institution attended that fairly represent the characteristics of the total of Eligible Loans acquired with the original proceeds of the Series 1996A Bonds and Series 1997A Bonds, respectively.

Recoveries of Principal which have remained on deposit in a Recycling Subaccount for a period of one hundred eighty (180) days (or such later time period consented to in writing by the Credit Facility Provider) shall be transferred to the Series 1996A Principal Subaccount or the Series 1997A Principal Subaccount, as applicable, and used to redeem Bonds pursuant to the Bond Resolution.

C. Within the Repayment Account, the "Series 1996A Principal Subaccount" and the "Series 1997A Principal Subaccount" to be used to account for all moneys to be used to pay the principal of or Redemption Price of any Series 1996A Bonds or Series 1997A Bonds, respectively.

D. Within the Repayment Account, the "Interest Subaccount" to be used to account for moneys to be used to pay the interest on the Bonds and Notes, including the Series 1996A Bonds and Series 1997A Bonds.

E. The Debt Service Reserve Account of the Student Loan Sinking Fund for the Bonds and Notes, including the Series 1996A Bonds and Series 1997A Bonds; and

F. A "Rebate Fund" for deposit of computed amounts of rebate or excess interest, in which fund the Registered Owners will not have any right, title or interest.

Debt Service Reserve Account

The Bond Resolution establishes a "Debt Service Reserve Account" within the Student Loan Sinking Fund for the benefit of the Registered Owners of the Obligations, including the Series 1996A Bonds and Series 1997A Bonds. Pursuant to the Bond Resolution, the Authority is required to maintain the Debt Service Reserve Account from the other assets in the Trust Estate at an amount equal to the Debt Service Reserve Account Requirement.

The "Debt Service Reserve Account Requirement" for the Series 1996A Bonds and Series 1997A Bonds is an amount equal to the greater of two percent (2%) of the principal amount of the Series 1996A Bonds and Series 1997A Bonds outstanding under the Bond Resolution or \$500,000. The Debt Service Reserve Requirement (a) for the Series 1996A Bonds was funded upon the issuance of the Series 1996A Bonds and (b) for the Series 1997A Bonds will be funded upon issuance of the Series 1997A Bonds.

Amounts in the Debt Service Reserve Account for the Bonds and Notes are currently invested in Governmental Obligations with maturities not to exceed five (5) years. Upon issuance of the Series 1997A Bonds, the Authority expects to instruct the Trustee to invest the additional moneys to be deposited in the Debt Service Reserve Account for the Bonds and Notes in similar Governmental Obligations.

To the extent there are insufficient moneys in the Repayment Account to make the transfers described in paragraphs A through H, inclusive, under the caption "SECURITY AND SOURCES OF PAYMENT - Flow of Funds" herein, then, after any required transfer from the Student Loan Fund, the amount of such deficiency will be paid directly from the Debt Service Reserve Account.

If the Debt Service Reserve Account is used for the purposes described in the preceding paragraph, the Trustee will restore the Debt Service Reserve Account Requirement on the next Bond Payment Date by transfers from the Repayment Account. If, on any date, the Debt Service Reserve Account Requirement is exceeded for any reason, the Trustee, at the direction of the Authority, will transfer the excess to the Repayment Account.

Issuance of Additional Bonds and Notes

The Bond Resolution provides that the Authority may issue Additional Bonds and Notes pursuant to a Supplemental Bond Resolution (the "Additional Bonds and Notes") only upon satisfying certain conditions, including the delivery to the Trustee of written verification from each Rating Agency that the Ratings on such Additional Bonds and Notes is not lower than the Ratings of the Series 1996A Bonds and Series 1997A Bonds Outstanding; and confirming that the Ratings on the Outstanding Series 1996A Bonds and Series 1997A Bonds will not be lowered or withdrawn due to the issuance of such Additional Bonds or Notes. In addition, the written consent of the Credit Facility Provider to the issuance of such Additional Bonds and Notes is required.

Swap Agreements

The Authority in the Bond Resolution, authorizes and directs the Trustee to acknowledge and agree to any Swap Agreement approved in writing by the Credit Facility Provider and entered into by the Authority and a Swap Counterparty under which: (i) the Authority may be required to make, from time to time, Authority Swap Payments; and (ii) the Trustee may receive from time to time, Counterparty Swap Payments for the account of the Trust Estate.

The Swap Agreement will provide that the Authority will have the right to terminate the Swap Agreement without payment by the Authority of any Swap Value or termination payment or other compensation for any loss or damage to the Swap Counterparty resulting from such termination if the Swap Counterparty's Rating by a Rating Agency is suspended, withdrawn or falls below "A2" with respect to Moody's, and within ten (10) days thereafter, the Swap Counterparty fails to provide collateral (consisting of direct obligations of the United States Government or obligations of federal agencies which are fully guaranteed as to principal and interest by the United States Government) securing its obligations under the Swap Agreement and to be held by the Trustee (or third party designated by the Authority) in an amount (valued in accordance with the provisions of the Swap Agreement) which is not less than 103% of the maximum aggregate remaining payment obligation of the Swap Counterparty over the remaining term of the Swap Agreement.

In connection with the execution of a Swap Agreement, the Trustee, on behalf of the Swap Counterparty, will waive in a Supplemental Bond Resolution executed in connection with a 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 Counterparty Swap Payment from the Swap Counterparty.

In addition, no voluntary termination payment required to be made by the Authority under a Swap Agreement will be paid from moneys in the Trust Estate unless the Trustee receives the written consent of the Credit Facility Provider and written confirmation from each Rating Agency that its then applicable Ratings on the Bonds and Notes will not be lowered or withdrawn due to such payment.

Servicing Fees, Program Expenses and Administrative Expenses

The amount used to pay Servicing Fees, Program Expenses and Administrative Expenses from the Student Loan Sinking Fund and, if necessary, from the Student Loan Fund, and the schedule of payments will be determined by the Authority, but the amounts so paid in any one Fiscal Year will not exceed the amount budgeted by the Authority as Servicing Fees, Program Expenses and Administrative Expenses for such Fiscal Year with respect to the Bonds and Notes and as may be limited by a Supplemental Bond Resolution, and will not exceed the amount designated therefor in the cash flows provided to the Credit Facility Provider on the date of issuance of any Outstanding Bonds and Notes, unless the Authority, after furnishing the Credit Facility Provider with revised cash flows, shall have received the written consent of the Credit Facility Provider to the payment of such additional Servicing Fees, Program Expenses and/or Administrative Expenses.

Investment of Funds

The Trustee will invest money held for the credit of any Fund, Account or Subaccount held by the Trustee under the Bond Resolution as directed in writing (or orally, confirmed in writing) by an Authorized Officer of the Authority or a designee appointed in writing by an Authorized Officer of the Authority, to the fullest extent practicable and reasonable, in Investment Securities which shall mature or be redeemed at the option of the holder prior to the respective dates when the money held for the credit of such Fund, Account or Subaccount will be required for the purposes intended. In the absence of any such direction the Trustee will invest such

amounts in Governmental Obligations. Earnings with respect to, and any net gain on the disposition of, any such investments, except on investments contained in the Rebate Fund, will be deposited into the corresponding Account of the Student Loan Sinking Fund. Earnings on amounts contained in the Rebate Fund shall remain in the Rebate Fund. Investments are valued monthly at their Value.

Supplemental Resolutions

The Bond Resolution provides that, subject to various conditions, resolutions supplemental to and amendatory of the Bond Resolution may be adopted by the trustees of the Authority, some of which may be adopted without the consent of the Registered Owners of the Bonds and Notes. Reference is made to the Bond Resolution, a copy of which is available upon request to the Authority, for the complete provisions thereof.

Supplemental Resolutions Not Requiring Consent of Registered Owners. The Authority may, with the consent of the Trustee, the Credit Facility Provider and the Liquidity Facility Provider, but without the consent of or notice to any of the Registered Owners, adopt any resolution supplemental to the Bond Resolution for any one or more of the following purposes:

- A. To enter into a Supplemental Bond Resolution for the purposes of issuing Additional Bonds and Notes;
- B. To make the terms and provisions of the Bond Resolution, including the lien and security interest granted therein, applicable to a Swap Agreement;
- C. To evidence the appointment of a separate or co-Trustee or the succession of a new Trustee, or any additional or substitute Guarantee Agency or Servicer;
- D. To add to or amend such provisions of the Bond Resolution as may be necessary or desirable to assure implementation of the Program in conformance with the Higher Education Act, to make any change as shall be necessary in order to obtain an investment-grade rating for the Bonds and Notes from a nationally recognized rating service (which changes, in the opinion of the Trustee, are not to the prejudice of the Registered Owners), or to make any change as shall be necessary in order to maintain the exclusion of interest on the Bonds and Notes from gross income of the Registered Owners thereof for federal income tax purposes;
- E. To cure any ambiguity or formal defect or omission in the Bond Resolution, to grant to or confer upon the Trustee (for the benefit of the Registered Owners) any additional benefits, rights, remedies, powers or authorities that may lawfully be granted to or conferred upon the Registered Owners or the Trustee, or to subject to the Bond Resolution additional revenues, properties or collateral, or to create any additional Funds or Accounts or Subaccounts under the Bond Resolution;
- F. To make any change which affects the Bonds and Notes only when they bear a type of interest rate other than the one borne at the time of delivery of the Bond Resolution or a Supplemental Bond Resolution upon receipt by the Authority and the Trustee of written confirmation from each Rating Agency that its then-applicable Ratings on the Bonds and Notes will not be lowered or withdrawn because of such change;
- G. To modify, amend or supplement the Bond Resolution or any resolution supplemental thereto in such manner as to permit the qualification of such resolutions under the Trust Indenture Act of 1939 or any similar federal statute hereafter in effect, or to permit the qualification of the Bonds and Notes for sale under the securities laws of the United States of America or of any of the states thereof, and, to add to the Bond Resolution or any Supplemental Bond Resolution such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute; or

H. To make any other change, except for any change which requires the consent of all the Registered Owners, upon receipt by the Authority and the Trustee of written confirmation from each Rating Agency that its then-applicable Ratings on the Bonds and Notes will not be lowered or withdrawn because of such change.

Supplemental Resolutions Requiring Consent of Registered Owners. Except as provided for Supplemental Resolutions *not* requiring the consent of Registered Owners, the Credit Facility Provider, the Liquidity Facility Provider and the Registered Owners of not less than a majority of the collective aggregate principal amount of the Obligations then Outstanding (which in the opinion of the Trustee are affected) shall have the right to consent to and approve the adoption by the Authority of such Supplemental Bond Resolution as shall be deemed necessary and desirable by the Trustee for the purpose of modifying, altering, amending, adding to or rescinding, in any particular, any of the terms or provisions contained in the Bond Resolution or in any Supplemental Bond Resolution; provided, however, that nothing shall permit, or be construed as permitting, without the consent of the Registered Owners of *all* then Outstanding Bonds and Notes affected thereby: (i) an extension of the maturity date of the principal of or the interest on any Bond or Note; or (ii) a reduction in the principal amount of any Bond or Note or the rate of interest thereon; or (iii) a privilege or priority of any Bond or Note or Bonds or Notes over any other Bond or Note or Bonds or Notes except as otherwise provided in the Bond Resolution; or (iv) a reduction in the aggregate principal amount of the Bonds and Notes required for consent to such Supplemental Bond Resolution; or (v) the creation of any lien other than a lien ratably securing all of the Bonds and Notes at any time Outstanding except as otherwise provided in the Bond Resolution.

Amendments to the Credit or Liquidity Facilities Not Requiring Consent of Registered Owners. The Authority and the Trustee may, without the consent of or notice to the Registered Owners, but only with the prior written consent of the Credit Facility Provider and the Liquidity Facility Provider, consent to any amendment, change or modification of the Credit Facility, the Liquidity Facility, any Alternate Credit Facility or any Alternate Liquidity Facility that may be required: (i) by the provisions of the Credit Facility, the Liquidity Facility, an Alternate Credit Facility, an Alternate Liquidity Facility or the Bond Resolution, (ii) for the purpose of curing any ambiguity, formal defect or omission; (iii) to add additional rights acquired in accordance with the provisions of the Credit Facility, the Liquidity Facility, an Alternate Credit Facility or an Alternate Liquidity Facility; (iv) in order to obtain for the applicable series of Bonds and Notes an investment grade rating from a nationally recognized rating service; or (v) in connection with any other change therein which, in the judgment of the Trustee, is not to the material prejudice of the Trustee or the Registered Owners of the applicable series of Bonds and Notes.

Amendments to Credit or Liquidity Facilities Requiring Consent of Registered Owners. Except as provided for Credit or Liquidity Facility amendments *not* requiring the consent of Registered Owners, neither the Authority nor the Trustee shall consent to any amendment, change or modification of the Credit Facility, the Liquidity Facility, any Alternate Credit Facility or any Alternate Liquidity Facility without notice and the written approval or consent of the Registered Owners of not less than two-thirds (2/3) in aggregate principal amount of the applicable series of Bonds and Notes at the time Outstanding and the prior written consent of the Credit Facility Provider and the Liquidity Facility Provider. Nothing shall permit, or be construed as permitting, a reduction of the aggregate principal amount of a series of Bonds and Notes the Registered Owners of which are required to consent to any such amendment, change or modification or a reduction in, or a postponement of the payments under the Credit Facility or the Liquidity Facility without the consent of the Registered Owners of *all* of the applicable series of Bonds and Notes then Outstanding.

Events of Default and Remedies

The Bond Resolution provides various remedies to, and limitations on the exercise of remedies by, the Registered Owners of the Bonds and Notes. Reference is made to the Series 1996A Bond Resolution, a copy of which is available upon request to the Authority, for the complete provisions thereof.

Events of Default. The following events are defined in the Bond Resolution as "Events of Default": (i) default in the payment of the principal of or interest on any of the Bonds and Notes when due, or failure to make any payment due under any of the Obligations when due; (ii) default in the performance or observance of any other of the Authority covenants to be kept and performed and continuation of such default for a period of ninety (90) days after written notice thereof by the Trustee to the Authority; (iii) the occurrence of an "event of default" under a Tax Regulatory Agreement with respect to any series of tax-exempt Bonds and Notes; and (iv) default in the payment of any amount due pursuant to the tender demand for purchase or mandatory purchase under the Bond Resolution.

While the failure to perform any of the covenants or agreements contained in the Bond Resolution will be deemed to be a "default", the remedies contained therein are exercisable solely upon the happening of "Events of Default" listed above.

Right to Enforce in Trustee. No Registered Owner will have any right to institute any suit, action or proceeding for the enforcement of the provisions of the Bond Resolution or for any other remedy thereunder. All such rights of action are vested exclusively in the Trustee, unless and until such Registered Owner: (i) shall have obtained the written consent of the Credit Facility Provider for such action; (ii) shall have previously given the Trustee written notice of a default and of the continuance thereof; (iii) shall have made written request upon the Trustee and the Trustee shall have been afforded reasonable opportunity to institute such action; and (iv) the Trustee shall have been offered reasonable indemnity and security satisfactory to it against the expenses and liabilities to be incurred therein; and (v) the Trustee shall have failed to institute any such action for thirty (30) days after receipt of such notification and offer of indemnity.

Remedies on Default. The remedies in the Bond Resolution available to the Trustee, the Credit Facility Provider or the Registered Owners are not intended to be exclusive of any other remedy, but each remedy will be cumulative and will be in addition to every other remedy given thereunder or now or hereafter existing. No delay or omission of the Trustee, the Credit Facility Provider or any Registered Owner to exercise any power or right arising from any default will impair any such right or power or will be construed to be a waiver of any such default or to be acquiescence herein.

A. *Accelerated Maturity Remedy.* If an Event of Default shall have occurred and be continuing, the Trustee (with the written consent of the Credit Facility Provider) may declare - or upon the written direction of the Credit Facility Provider or by the Registered Owners of at least twenty-five percent (25%) of the aggregate principal amount of the Bonds and Notes then Outstanding and with the written consent of the Credit Facility Provider, shall declare - the principal of all Obligations then Outstanding, and the interest thereon, immediately due and payable; provided, however, that a declaration of acceleration upon a default pursuant to (ii) or (iii) under the heading "Events of Default" above shall require the written consent of the Credit Facility Provider or 100% of the Registered Owners of the aggregate principal amount of the Bonds and Notes then Outstanding with the written consent of the Credit Facility Provider.

B. *Possession of Trust Estate Remedy.* Subject to provisions in the Bond Resolution regarding acceleration of Obligations, upon the happening and continuance of any Event of Default, the Trustee may take possession of such portion of the Trust Estate as shall be in the custody of others, and manage and control the same as it shall deem best, and collect and receive all Revenues and Recoveries of Principal thereof, and after deducting therefrom all expenses incurred and all other proper outlays, the Trustee shall apply the rest and residue of the money received by it, including proceeds of sale of the Trust Estate, as provided in the Bond Resolution.

C. *Sale of Trust Estate Remedy.* Upon the happening of any Event of Default and if the principal of all of the Outstanding Obligations shall have been declared due and payable, then the Trustee may (with the written consent of the Credit Facility Provider) - and shall, upon the written direction of the Credit Facility Provider - sell the Trust Estate, and all right, title, interest, claim and demand thereto and the right of redemption thereof, to the highest bidder at any such place, time, notice and terms

as may be required by law. Upon such sale the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same.

Restoration of Position. In case the Trustee shall have proceeded to enforce any rights under the Bond Resolution by sale or otherwise, and such proceedings shall have been waived, discontinued, or determined adversely to the Trustee, then the Authority, the Trustee, the Registered Owners and the Credit Facility Provider will be restored to their former respective positions and rights in respect to the Trust Estate.

Releases to the Authority

The Bond Resolution permits the Authority to instruct the Trustee to transfer certain excess assets of the Trust Estate to the Authority free and clear of the lien of the Bond Resolution; provided that no such transfer of assets to the Authority will be made unless:

A. There is on deposit in the Debt Service Reserve Account an amount at least equal to the Debt Service Reserve Account Requirement;

B. The Trustee has received a Cash Flow Certificate and an opinion of nationally recognized municipal bond counsel that certain conditions have been met and that such transfer will not affect adversely the exclusion from federal income taxation of interest on any Bonds and Notes;

C. The Trustee has received an Authority certificate to the effect that all rebate liability as calculated pursuant to the Tax Regulatory Agreement and Investment Instructions through the date of such transfer has been paid or deposited in the Rebate Fund; and

D. Immediately after taking into account any such transfer, the Aggregate Market Value of the assets in the Trust Estate will be at least equal to 103% of the unpaid principal amount of the Bonds and Notes Outstanding.

ESTIMATED SOURCES AND USES OF FUNDS

The Authority expects to apply the proceeds from the sale of the Series 1997A Bonds and other moneys approximately as shown in the following table:

SOURCES	
Series 1997A Bonds	\$33,000,000
USES	
Deposit to Series 1997A Loan Subaccount	\$32,090,000
Deposit to Debt Service Reserve Account	660,000
Costs of Issuance	114,700
Underwriting Fee and Expenses	<u>135,300</u>
Total	<u>\$33,000,000</u>

INVESTMENT CONSIDERATIONS

Prospective purchasers and Beneficial Owners of the Series 1997A Bonds should consider the following factors which, among other things, could affect the ability of the assets pledged to the Trust Estate to provide payment of debt service on the Series 1997A Bonds. In addition, other factors could affect the ability of the Authority to administer the Trust Estate for the Bonds and Notes, including the Series 1997A Bonds, and service the Eligible Loans in the Trust Estate, and which could affect the marketability or market price of the Bonds and Notes, including the Series 1997A 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.

The Series 1997A Liquidity Facility

The Purchase Price of the Series 1997A Bonds upon an optional or mandatory tender pursuant to the Series 1997A Bond Resolution is guaranteed by the Series 1997A Liquidity Facility; however, the Series 1997A Liquidity Facility is subject to termination upon the termination of the Credit Facility or the bankruptcy of the Series 1997A Credit Facility Provider without first permitting or requiring a tender of the Series 1997A Bonds. Registered Owners and Beneficial Owners of the Series 1997A Bonds may be required to hold their Series 1997A Bonds for an indefinite period of time until the Authority is able to substitute an Alternate Liquidity Facility or an Alternate Credit Facility.

Factors Affecting Cash Flow Sufficiency

The cash flow projections prepared in conjunction with the issuance of the Series 1997A Bonds (see the caption "SECURITY AND SOURCES OF PAYMENT - Cash Flow Projections" herein and Appendix D — "CASH FLOW ASSUMPTIONS" hereto) utilize assumptions, which the Authority believes are reasonable, regarding the current and future composition of and yield on the Authority's education loan portfolio to be held in the Trust Estate, the rate of return on moneys to be invested in various Funds and Accounts under the Bond 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 actual Revenues and Recoveries of Principal from the Eligible Loans in the Trust Estate will be received as anticipated, that the composition of the Financed Eligible Loan portfolio will be as assumed, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, that Interest Benefit Payments and Special Allowance Payments from the USDE will be received in the amounts and at the times anticipated or that actual expenditures related to the Trust Estate 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. Furthermore, future events over which the Authority has no control may adversely affect the Trust Estate or the Authority.

Receipt of Revenues and Recoveries of Principal on the Eligible Loans in the Trust Estate 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 education 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 education loan portfolio; (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 (formerly the Federal Direct Student Loan Program, or "FDLP") competing with the Authority's FFEL Program and (v) changes in federal law which may affect the timing of receipt of funds by the Authority. Acceleration of receipt of Revenues and Recoveries of Principal on Eligible Loans in the Trust Estate may adversely affect payment of principal of and interest on the Series 1997A Bonds when due, including if such timing results in failure to recover from payments on the Eligible Loans in the Trust Estate an amount

equal to that portion of the proceeds of the Series 1997A Bonds used to pay any premium and transfer fee upon the acquisition of Eligible Loans or results in an early redemption of the Series 1997A Bonds.

Receipt of Revenues and Recoveries of Principal on the Eligible Loans in the Trust Estate 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 education 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 education loan portfolio. Such delay in the receipt of Revenues and Recoveries of Principal on Eligible Loans in the Trust Estate may adversely affect payment of principal of and interest on the Series 1997A Bonds when due.

If actual receipt of Revenues and Recoveries of Principal or actual expenditures vary materially adversely from those projected, then the Authority may be unable to pay the principal of and interest on the Bonds and Notes when due, including the Series 1997A Bonds. In such event, the Bond Resolution authorizes, and under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of the Bonds and Notes, including the Series 1997A Bonds, and sell the Eligible Loans in the Trust Estate and all other assets comprising the Trust Estate. In such event, it is possible 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 and Notes, including the Series 1997A Bonds.

Compliance with the Higher Education Act

The Higher Education Act requires lenders, including the Authority, making and servicing Eligible Loans, a Guarantee Agency guaranteeing education loans, and third party 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 procedures are set forth in the Code of Federal Regulations and other documents of the USDE and no attempt has been made in this Official Statement to describe those procedures in their entirety.

The required due diligence procedures include certain loan application procedures, certain loan origination procedures and, when an education loan is delinquent or in default, certain loan collection procedures. Such loan application procedures, loan origination procedures and 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 comply with the required due diligence procedures may result in the Secretary's refusal to make reinsurance payments to the Guarantee Agency on such loans, or in the Guarantee Agency'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 Guarantee Agency various federal benefits received by the Authority with respect to an Eligible Loan which was not entitled to receive such amounts. Loss of reinsurance payments by the Secretary could adversely affect the ability of the Guarantee Agency to honor guarantee claims made by the Authority, and loss of guarantee payments to the Authority by a Guarantee Agency or other federal benefits could adversely affect payment of principal of and interest on the Bonds and Notes when due, including the Series 1997A 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 Guarantee Agencies

The Authority's ability to pay, when due, the principal of and interest on the Bonds and Notes, including the Series 1997A Bonds, from monies to be received into the Trust Estate depends in part on the Authority's timely receipt from the Guarantee Agencies of guarantee payments required to be made pursuant to agreements between the Authority and the respective Guarantee Agencies. Although the Guarantee Agencies 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, the Guarantee Agencies 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 Guarantee Agency has guaranteed, and not just the loans held by the Authority). The ability of the Guarantee Agencies to make guarantee claim payments with respect to defaulted Eligible Loans in the Trust Estate 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 Guarantee Agencies. See the caption "GUARANTEE AGENCIES - Federal Payment of Claims" herein. However, the Student Loan Reform Act of 1993 contained certain amendments affecting Guarantee Agencies, such as reducing the maximum guarantee fee allowed to be charged by Guarantee Agencies, 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 Guarantee Agency reserve funds under certain circumstances.

As of March 31, 1997, approximately 98.9% of the Authority's FFEL Program loans were guaranteed by the State 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 Estate. See the caption "GUARANTEE AGENCIES" herein, and see also, "Appendix E — THE STATE GUARANTEE AGENCY, DESCRIPTIVE, STATISTICAL AND FINANCIAL 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 the FDLP 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 lender loan 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 reduction for loans first disbursed on or after July 1, 1995 in Interest Benefit Payments on Eligible Loans while the Secretary is paying interest benefits on such loans, e.g. loans in school, grace or deferment status.

The Student Loan Reform Act of 1993 may have a material adverse impact on Guarantee Agencies and student loan lenders and holders such as the Authority. See "Appendix F - SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein.

In addition, numerous provisions have been proposed that could adversely affect the Authority, including, without limitation: (i) an increase in the lender loan fee currently assessed at 0.5% of loan principal originated; (ii) fees on purchase of

loans; (iii) fees on loan principal held by the lender in repayment status; (iv) elimination of Interest Benefit Payments for Federal Stafford Loans in grace status; and (v) increased co-insurance risk by reducing the maximum guarantee amount paid to eligible lenders to 95% from the current 100% (or, with certain exceptions, 98% for loans disbursed on or after October 1, 1993).

Competing Federal Direct Loan Program

Beginning July 1, 1994, USDE began implementing its FDLP which was authorized by the enactment of the Student Loan Reform Act of 1993. FDLP competes with the FFEL Program by lending directly at eligible schools electing to participate in that program, eliminating FFEL Program lenders, such as the Authority, from originating some or all education loans at the participating schools.

FDLP could 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 Guarantee Agencies 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 and Notes, including the Series 1997A Bonds, earlier than expected which could adversely affect the cash flow in the Trust Estate.

The Authority is unable to predict the future impact of FDLP on its originations of FFEL Program loans or on the effect of FDLP on the originations of FFEL Program loans by other eligible lenders that might sell such loans to the Authority.

A. *First Year Participation in FDLP.* In the year ended June 30, 1995, FDLP nationally achieved a 5% share of the annual student loan volume. In Oklahoma, Oklahoma State University, Stillwater, Oklahoma participated 100% in FDLP. In addition to originating new loans, USDE is offering borrowers the opportunity to prepay FFEL Program loans, such as are held by the Authority, and consolidate them as FDLP Direct Consolidation Loans.

B. *Second Year Participation in FDLP.* In the second year of FDLP ended June 30, 1996, that program was intended to achieve nationally a 40% share of the annual student loan volume. The aggregate lending volume of the additional schools in Oklahoma that participated in FDLP the second year of its implementation was not material to the Authority's lending volume.

C. *Comparative Authority Lending Volume.* Despite the presence of FDLP, the Authority's lending volume for the Fiscal Years ended June 30, 1996 and June 30, 1995, respectively, was approximately \$27,205,000 (plus Consolidation Loans of approximately \$10,175,000) and \$24,940,000 (plus Consolidation Loans of approximately \$2,650,000 originated) compared with disbursements of approximately \$25,030,000 for the Fiscal Year ended June 30, 1994.

D. *Future Implementation of FDLP.* In future years, FDLP 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 FDLP by schools where the Authority presently lends.

E. *Pending Federal Legislation Regarding FDLP.* Several proposals have been made regarding FDLP. The President of the United States and USDE have advocated accelerating the implementation of FDLP to 100% of the student loan market by 1998. Other proposals would limit FDLP participation. It is impossible to predict the outcome of proposed or pending legislation or the effect on the Authority of any legislation that is enacted.

Certain Factors Relating to Security

The Authority has covenanted in the Bond Resolution that the Bonds and Notes and other Obligations will be secured by an irrevocable and first lien on and pledge of the property constituting the Trust Estate. The Authority acquires Eligible Loans by both purchasing and originating loans. With respect to Eligible Loans acquired by purchase, the Authority customarily obtains warranties from the sellers as to several matters, including that the loans were originated in accordance with the Higher Education Act, that the loans will be transferred to the Authority free of any lien and all filings (including UCC filings) necessary in any jurisdiction to give the Trustee on behalf of the Authority a first perfected security interest in the loans have been made. Notwithstanding the foregoing, under applicable law, security interests in such loans may exist which may not be ascertainable from a search of public records and other available sources. Therefore, no absolute assurance can be given that liens other than the lien of the Authority do not and will not exist. In addition, notwithstanding any representations and warranties which may be made by a seller of Eligible Loans, no assurance can be given that such seller would, or would be financially able to, honor any repurchase obligation or to pay any damages resulting from any legal action brought by the Authority against such seller.

The Authority has covenanted in the Bond Resolution to repurchase from the Trust Estate all Student Loans that are no longer Guaranteed or Insured as a result of improper origination by the Authority at a purchase price equal to the outstanding principal amount of such Student Loan plus accrued interest and Special Allowance Payments if the exclusion of such loan from the Trust Estate will cause the Aggregate Market Value of the assets in the Trust Estate to be less than 100% of the unpaid principal amount of the Bonds and Notes Outstanding.

Enforceability of Remedies

The remedies available to the Trustee, the Authority or Registered Owners of the Bonds and Notes, including the Series 1997A 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 may not be readily available or may be limited. The various legal opinions delivered concurrently with the delivery of the Series 1997A Bonds 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

The material in this Section of the Official Statement is a brief overview of the Authority, and does not purport to be complete information on the Authority. Appendix C herein provides additional financial information and operating data regarding the Authority. Reference is made to "Appendix C - OKLAHOMA STUDENT LOAN AUTHORITY, FINANCIAL INFORMATION AND OPERATING DATA herein for such information.

Organization and Powers

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 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	April 6, 2000	Chairman, Charter National Bank; Oklahoma City, OK
Ted VanLandingham	Vice Chairman	April 6, 1999	General Manager & Co-Owner, Devery Implement Company; Alva, OK
Sylvia Weedman	Secretary	April 6, 1997	Instructor, Gordon Cooper Area Vo-Tech School; Shawnee, OK
Tom McCasland, III	Assistant Secretary	April 6, 2001	President, Mack Energy Company; Duncan, OK
Dr. T. Sterling Wetzel	Trustee	April 6, 1998	Professor, Oklahoma State University; Stillwater, OK

*Ms. Weedman will continue to serve until a successor has been duly appointed by the Governor and qualified to serve pursuant to State law.

The Trust Indenture creating the Authority, and the Act, empower the trustees of the Authority, among other things, to incur indebtedness by the issuance of revenue notes, bonds or other evidences of indebtedness, and to secure such obligations 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 judgment necessary or desirable for the proper and advantageous management, investment and distribution of the trust estate and income therefrom; and to bring any suit or action, which in their judgment 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, 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 day-to-day management of the Authority is provided by a President and executive staff appointed by the trustees of the Authority. See "Appendix C — OKLAHOMA STUDENT LOAN AUTHORITY, FINANCIAL INFORMATION AND OPERATING DATA — Executive Management" herein.

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; its facsimile transmission number is (405) 556-9255 and its general e-mail address is *info@oslat.org*.

General

The primary purpose of the Authority is to provide funds for education loans. In doing so the Authority acts as an originating lender to student borrowers or their parents for costs of post-secondary education (approximately 92.8% of the Authority's Fiscal Year 1996 loan finance activity, including Consolidation Loans) and, in certain instances, purchases guaranteed education loans from other eligible lenders (approximately 6.8% of the Authority's Fiscal Year 1996 loan finance activity). The Authority is also a Lender of Last Resort for the State Guarantee Agency (approximately 0.4% of the Authority's Fiscal Year 1996 loan finance activity). See the heading "Lender of Last Resort" in this section of the Official Statement.

The Authority services its own education loans and those of certain other Oklahoma lenders utilizing a remote servicing system database pursuant to an agreement with UNIPAC Service Corporation of Aurora, Colorado. Education loan application processing, origination and servicing functions are performed by the Authority under the registered tradename "Oklahoma Student Loan Servicing". See the heading "Loan Servicing" in this section of the Official Statement.

The Authority receives no appropriated funds from the State for its operating expenses. All expenses of the Authority are paid from revenues derived from trust operations in administration of its various education loan programs.

The USDE routinely conducts site program reviews or audits secondary markets, such as the Authority, for compliance with various aspects of the Higher Education Act. The Authority underwent a program review in July 1996, and received the USDE report in January 1997 presenting certain observations and findings of the review. The Authority responded to the report within the allotted time. The Authority believes that it is in substantial compliance with the provisions of the Higher Education Act and does not expect the results of the program review to have a material adverse effect upon its ability to comply with the provisions of the Bond Resolution or its continuing operations.

At March 31, 1997, the Authority held loans with a current principal balance totaling approximately \$151,773,000.

Lending Programs

The lending programs offered by the Authority provide 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 such educational institutions out of state are also eligible to borrow from the Authority.

The FFEL lending programs presently offered by the Authority are listed below.

- Federal Stafford Loan ("*Stafford*" or "*Subsidized Stafford*") Program
- Unsubsidized Stafford Loans for Middle Income Borrowers ("*Unsubsidized Stafford*") Program
- Federal Parent Loans to Undergraduate Students ("*PLUS*") Program

- Federal Consolidation Loan ("*Consolidation*") Program

The following table illustrates the approximate dollar amount and type of loan principal disbursed (net of canceled disbursements) 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>Consolidation Loans</u>	<u>Total</u>
1996	\$17,415,000	\$7,709,000	\$2,081,000	\$ 0	\$10,175,000	\$37,380,000
1995	\$16,410,000	\$6,030,000	\$2,100,000	\$ 400,000*	\$ 2,650,000**	\$27,590,000
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

* SLS was repealed by the Higher Education Act for periods of enrollment beginning on or after July 1, 1994.

** Consolidation Loans were made beginning March 1, 1995 and during only the last four months of the Fiscal Year ended June 30, 1995.

*** Represents Health Education Assistance Loan volume. The Authority discontinued making such loans in May 1993 and sold these loans in November 1994 to a third party.

See "Appendix F — SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" hereto for a more complete description of the FFEL Program.

Acquisition Programs

In June 1993, the Authority began acquiring certain guaranteed education loans from other eligible lenders in Oklahoma which had originated and serviced such loans. Under the provisions of the purchase agreements for such loan acquisitions, the seller 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 and servicing of the loan by the Authority. In the Fiscal Year ended June 30, 1996, the Authority acquired approximately \$2,712,000 principal amount of such loans from other eligible lenders.

In connection with its acquisition of education loans, the Authority has established a Statewide Lending Network of eligible Oklahoma lenders. The Authority performs loan application processing, disbursement and pre-acquisition servicing of education loans for the Network lenders, pursuant to separate Education Loan Servicing Agreements between the Authority and each participating lender. In addition, the Authority maintains separate Forward Purchase Commitment Agreements with each such participating lender requiring the lender to sell and the Authority to purchase education loans held by such lender from time to time in connection with the commencement of the repayment status of such loans at agreed upon prices. At March 31, 1997, the amount of such loans required to be purchased in the future did not exceed the lines of credit available to the Authority for education loan funding.

Lender of Last Resort

In February 1994, the Authority began offering loans to certain students, primarily those attending high default rate schools, under certain conditions pursuant to the State Guarantee Agency's Lender of Last Resort Loan Program. During the Fiscal Year ended June 30, 1996, the Authority disbursed approximately \$174,000 principal amount of Lender of Last Resort Loans. At March 31, 1997, the Authority held approximately \$552,000 principal amount of such loans.

Students requesting Lender of Last Resort loans generally must have two (2) denial letters from other eligible lenders that will not agree to make the loan to such student. Lender of Last Resort loans that default are guaranteed 100% as to principal and interest by the State Guarantee Agency, even if disbursed on or after October 1, 1993.

Loan Servicing

The Authority is required under the Higher Education Act, the rules and regulations of the Guarantee Agencies and the Bond Resolution to use due diligence in the servicing and collection of Financed Eligible Loans and to use collection practices no less extensive and forceful than those generally in use among financial institutions with respect to other consumer debt. If the Authority does not comply with the due diligence standards in such servicing, the Authority's ability to realize the benefits of guarantee payments and the Guarantee Agencies' ability to realize the benefits of federal reinsurance payments may be adversely affected. See the caption "INVESTMENT CONSIDERATIONS - Compliance with the Higher Education Act" herein.

At March 31, 1997, the Authority serviced loans with a current principal balance totaling approximately \$165,435,000. The Authority originates and services loans at its facilities 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, as renewed and amended for a term ending October 31, 1999.

Such education loan servicing functions performed by Authority employees include, among other things, application processing and funds disbursement by check, master check or electronic funds transfer in originating loans, customer service, loan account maintenance, including production of notices and forms to borrowers and the processing thereof, billings to USDE for Interest Benefits and Special Allowance Payments, collections of principal and interest from borrowers, filing claims to collect guarantee payments on defaulted loans and accounting. The Authority will be paid Servicing Fees from the Revenues of the Trust Estate for such servicing functions. The remote servicing software is operated from terminals and a gateway computer file server controlled by the Authority and connected to the UNIPAC data processing facilities by a data channel on a dedicated telecommunications line.

UNIPAC provides the Authority with a mainframe computer data base for storage of loan account data, the use of education loan servicing software and support thereof for the Authority to perform its servicing functions, maintenance of the education loan servicing software, daily mainframe computer batch processing and reporting of loan data and information to the Authority.

Generally, in its business in the student loan industry, UNIPAC provides education loan servicing, time sharing, administration and other services to lenders and secondary market purchasers throughout the United States. Based on information provided by UNIPAC and not independently verified by the Authority, UNIPAC began its education loan servicing operations on January 1, 1978. UNIPAC is owned 80.5% by Union Bank and Trust Company of Nebraska. As of March 31, 1997, UNIPAC had approximately 663 employees in Aurora, Colorado, and approximately 257 employees in its office in Lincoln, Nebraska. As of March 31, 1997, UNIPAC's full servicing volume was approximately \$6.0 billion for its full service clients. At that date, UNIPAC also had \$2.3 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.

Plan For Doing Business

The Authority prepared a Plan for Doing Business and an Amendment thereto, each of which were submitted to the Governor of the State and the State Guarantee Agency. The original Plan for Doing Business was approved by the Governor of the State on August 24, 1987, and the Amendment was approved on October 1, 1996 and each was transmitted to the Secretary of the USDE.

Future Loan Programs

The Authority may develop and offer other education lending programs from time to time in the future. Such loans may be financed under the Bond Resolution, or otherwise.

Additional Information

For further information regarding the Authority, including financial and operating data, see "Appendix C — OKLAHOMA STUDENT LOAN AUTHORITY, FINANCIAL INFORMATION AND OPERATING DATA" herein.

The financial statements of the Authority are prepared on the basis of generally accepted accounting principles. The financial statements of the Authority for the Fiscal Years ended June 30, 1996 and 1995 were audited and reported on by KPMG Peat Marwick LLP, Oklahoma City, Oklahoma, independent certified public accountants. Such audited financial statements speak only as of their respective dates and KPMG Peat Marwick has not been requested, nor has it undertaken, to conduct any post-audit review. A copy of such audited financial statements have been filed with the various Nationally Recognized Municipal Securities Information Repositories ("NRMSIRs") and are also included in this Official Statement in "Appendix C — OKLAHOMA STUDENT LOAN AUTHORITY, FINANCIAL INFORMATION AND OPERATING DATA."

The Bonds and Notes, including the Series 1997A Bonds, and the interest thereon, are not general obligations of the Authority, but rather are limited and special revenue obligations of the Authority secured by, and payable solely from, the assets of the Trust Estate. The audited financial statements contained in Appendix C and those on file with the NRMSIRs are intended only as background information on the Authority and its overall operations.

GUARANTEE AGENCIES

The material in this Section of the Official Statement is a brief overview and does not purport to be complete information on the Guarantee Agencies, including the State Guarantee Agency which is the primary guarantor of education loans held by the Authority. Appendix E herein provides descriptive, statistical and financial information on the State Guarantee Agency. Reference is made to "Appendix E — THE STATE GUARANTEE AGENCY, DESCRIPTIVE, STATISTICAL AND FINANCIAL INFORMATION" herein for such information.

Guarantee and Reinsurance of Loans

The Eligible Loans in the Trust Estate will be guaranteed: (i) by the State Regents acting as the State Guarantee Agency; or (ii) by other Guarantee Agencies qualified under the Bond Resolution to act in such capacity; or (iii) in certain circumstances by the Secretary.

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 Guarantee Agencies 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 Guarantee Agencies 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.

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 guarantee benefits, the holder, such as the Authority, must assign to such guarantor all rights accruing to the holder under the notes evidencing the loan.

Pursuant to the Higher Education Act, each respective Guarantee Agency 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 Guarantee Agency for amounts expended by such Guarantee Agency 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 Guarantee Agency. The Supplemental Guarantee Agreement is subject to annual renegotiation and to termination for cause by the Secretary.

Consolidation of Guarantee Agencies

There are approximately 36 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. Some state guarantee agencies have ceased operating and others have reported mergers or other reorganizations or are reported to be discussing mergers or other reorganizations. The Authority is not able to predict the outcome of such consolidation activities or the effect thereof on the Authority.

Federal Payment of Claims

Pursuant to the Higher Education Act, 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. 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 make such a determination or will do so in a timely manner. The Higher Education Act 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.

Oklahoma Guaranteed Student Loan Program

Substantially all of the guaranteed FFEL Program conducted by the Authority is operated under the guidelines of the State Guarantee Agency. Numerous other lenders also make education loans guaranteed by the State Guarantee Agency utilizing the Guarantee Fund. The State Guarantee Agency is operated by the State Regents, a Constitutional 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.

The State Guarantee Agency 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. According to the State Guarantee Agency, as of June 30, 1996 and 1995, loans made by various eligible lenders and guaranteed by the State Guarantee Agency were outstanding in the total principal amount of approximately \$1.41 billion and \$1.14 billion, respectively. The reserve ratio of the State Guaranty Agency, on the accrual basis of accounting, at June 30, 1996 and 1995, was approximately 1.5% and 1.7%, respectively. 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 Fiscal Year ended June 30, 1996 was 0.9% which requirement will increase to 1.10% for the Fiscal Year ending June 30, 1997.

The State Guarantee Agency is a separate legal entity from the Authority, and the members of the State Regents and the trustees of the Authority do not overlap. In addition, the administrative management of the State Guarantee Agency and the Authority are separate.

For a description of the State Guarantee Agency, including statistical and financial statement information, see "Appendix E - THE STATE GUARANTEE AGENCY, DESCRIPTIVE, STATISTICAL AND FINANCIAL 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 1997A 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 Bonds and Notes, including the Series 1997A 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 1997A Bonds is subject to approval of validity by Kutak Rock, Oklahoma City, Oklahoma, Bond Counsel, whose approving opinion will be addressed to the Authority and the Underwriter and will state, among other things, that under existing law:

A. The Authority is an express trust duly created and established for public purposes, and has full power and authority to issue the Series 1997A Bonds and to adopt the Bond Resolution and enter into the Trust Agreement, the Tax Regulatory Agreement and the other documents contemplated thereby and perform its obligations thereunder;

B. The Bond Resolution, 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;

C. The Series 1997A Bonds have been duly authorized and issued by the Authority, are entitled to the benefits of the Bond Resolution and are valid and binding limited and special revenue obligations of the Authority secured by and payable solely from the revenues, funds and accounts of the Authority pledged as the trust estate therefor pursuant to the Bond Resolution.

Bond Counsel has 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 they have expressed an opinion on matters relating to the financial ability of the Authority to perform its obligations under the Series 1997A Bonds and the documents described herein.

The opinions expressed above by Bond Counsel with respect to the enforceability of the Series 1997A 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, by the application of general principles of equity, and by the exercise of judicial discretion in appropriate cases.

The fee and expenses of Bond Counsel are contingent upon the sale and delivery of the Series 1997A Bonds.

In addition, Bond Counsel will deliver a supplemental opinion to the Authority, the Underwriter and the Series 1997A Insurer regarding the fair and accurate description of certain provisions in the Official Statement, the exemption from securities registration of the Series 1997A Bonds and the creation of a first perfected security interest in the Trust Estate which secures the Series 1997A Bonds, subject to certain standard exceptions.

Certain legal matters will be passed on for the Authority by its special counsel, Roderick W. Durrell, Esq.; for the Underwriter by its counsel, Chapman and Cutler, Phoenix, Arizona; for the Series 1997A Insurer by Kutak Rock, Omaha, Nebraska; and for Sallie Mae by its General Counsel. 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 MATTERS" below.

TAX MATTERS

In the opinion of Kutak Rock, Oklahoma City, Oklahoma, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, interest on the Series 1997A Bonds is excludable from gross income of the recipients thereof for federal income tax purposes; however, interest on the Series 1997A Bonds constitutes a specific item of tax preference for purposes of the federal alternative minimum tax for individuals and corporations.

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 1997A 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 1997A 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 1997A Bonds could become taxable from the date of issuance of the Series 1997A 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 1997A Bonds may affect the tax status of interest on the Series 1997A Bonds.

Although Bond Counsel is of the opinion that interest on the Series 1997A Bonds is excludable from gross income for federal income tax purposes, the accrual or receipt of interest on the Series 1997A 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 1997A Bonds, particularly purchasers that are corporations (including S corporations 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, taxpayers otherwise entitled to claim the earned income credit or taxpayers who may be deemed to have incurred (or continued) indebtedness to purchase or carry tax-exempt obligations, are advised to consult their tax advisors as to the tax consequences of purchasing or holding the Series 1997A Bonds.

From time to time, there are legislative proposals in Congress that, if enacted, could alter or amend the federal tax matters referred to above or adversely affect the market value of the Series 1997A Bonds. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted, it would apply to bonds issued prior to enactment. Each purchaser of the Series 1997A Bonds should consult his or her own tax advisor regarding any pending or proposed federal tax legislation. Bond Counsel expresses no opinion regarding any pending or proposed federal tax legislation.

Bond Counsel is further of the opinion that, pursuant to the Act, the Series 1997A Bonds and the income therefrom are exempt from taxation in the State.

RATINGS

The Underwriter's obligation to purchase the Series 1997A Bonds is subject to the condition that Moody's has assigned its municipal bond ratings of "Aaa/VMIG-1" to the Series 1997A Bonds; and that S&P has assigned its municipal bond ratings of "AAA/A-1+" to the Series 1997A Bonds. Each Rating Agency has based its Ratings upon (i) the issuance by the Series 1997A Insurer of its financial guaranty issuance policy insuring the payment when due of the principal of and interest on the Series 1997A Bonds, and (ii) the Series 1997A Liquidity Facility to be issued by Sallie Mae.

The Ratings were applied for by the Authority. The Authority, the Series 1997A Insurer and Sallie Mae have furnished certain information and materials to the Rating Agencies concerning the Series 1997A Bonds and regarding the Authority, the Series 1997A Insurer and Sallie Mae, respectively, 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 Ratings are not a recommendation to buy, sell or hold the Series 1997A Bonds and an explanation of the significance of the ratings may be obtained from Moody's and S&P, respectively.

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 Series 1997A Bonds. Neither the Authority nor the Underwriter has undertaken any responsibility either to bring to the attention of the Registered Owners of the Series 1997A Bonds any proposed change in, or proposed withdrawal of, the Ratings on the Series 1997A Bonds or to oppose any such change or withdrawal.

UNDERWRITING

The Series 1997A Bonds are to be purchased by the Underwriter pursuant to the terms and conditions of the Bond Purchase Agreement (the "*Bond Purchase Agreement*") entered into by and between the Authority and the Underwriter which requires the Underwriter to pay a purchase price of \$33,000,000 (representing the par amount of the Series 1997A Bonds).

The Bond Purchase Agreement provides that the Underwriter's obligation is subject to certain conditions and that the Underwriter will purchase all of the Series 1997A Bonds, if any are purchased. Upon delivery of, and payment for the Series 1997A Bonds, the Underwriter will be paid a fee of \$135,300, which is equal to 0.41% of the aggregate principal amount of the Series 1997A Bonds, for its services.

The initial public offering price (as shown 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 1997A Bonds to certain dealers (including dealers depositing Series 1997A Bonds into investment trusts) and others at prices lower than the public offering price shown on the cover page hereof.

CONTINUING DISCLOSURE OF INFORMATION

The Series 1997A Bonds are initially exempt from the continuing disclosure requirements of Section (b)(5) of Rule 15c2-12 (the "*Disclosure Rule*") adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934 so long as the Series 1997A Bonds are Weekly Rate Bonds, and are in Authorized Denominations of \$100,000 or greater. If the Series 1997A Bonds are converted to Quarterly Rate Bonds, Semiannual Rate Bonds, Annual Rate Bonds or Fixed Rate Bonds, or are no longer in Authorized Denominations of \$100,000 or greater, the Series 1997A Bonds may become subject to the continuing disclosure requirements of the Disclosure Rule and, in such event, the Authority has agreed to comply with the applicable requirements of the Disclosure Rule which include, among other things, entering into an undertaking to provide, for the benefit of the Beneficial Owners of the Series 1997A Bonds, continuing information as required by the Disclosure Rule.

MISCELLANEOUS

The information in this Official Statement is presented for the guidance of prospective purchasers of the Series 1997A 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 1997A 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 1997A 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.

This Official Statement has been approved by the Authority for distribution by the Underwriter to the prospective purchasers and the Registered and Beneficial Owners of the Series 1997A Bonds.

OKLAHOMA STUDENT LOAN AUTHORITY

/s/ Patrick Rooney
Chairman



ATTEST:

/s/ Sylvia Weedman
Secretary

APPENDIX A

OKLAHOMA STUDENT LOAN AUTHORITY VARIABLE RATE DEMAND OBLIGATIONS, SERIES 1997A

DEFINITION OF CERTAIN TERMS

Set forth below are certain definitions of terms used in this Official Statement. Such definitions are extracted from the various definitions included in the Bond Resolution. Reference is hereby made to the Bond Resolution, copies of which are on file with the Authority and the Trustee. A copy of the Bond Resolution is available upon request to the Authority.

"Administrative Expenses" shall mean all of the Authority's expenses in administering its Program (including the acquisition and origination of Eligible Loans) under the Bond Resolution and shall include, without limiting the generality of the foregoing, salaries, acquisition, origination 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, travel, and payments for pension, retirement, health and hospitalization and life and disability insurance benefits, in each case as such fees and expenses are related to the Bond Resolution.

"Aggregate Market Value" shall mean on any calculation date the sum of the Values of all assets of the Trust Estate.

"Alternate Credit Facility" shall mean a substitute Credit Facility described under the caption "THE SERIES 1997A CREDIT FACILITY - Alternate Credit Facility" in the main body of this Official Statement.

"Alternate Liquidity Facility" shall mean a substitute Liquidity Facility described under the caption "THE SERIES 1997A LIQUIDITY FACILITY - Alternate Liquidity Facility" in the main body of this Official Statement.

"Annual Rate" shall mean the Interest Rate determined annually in accordance with the Bond Resolution. See the captions "DESCRIPTION OF THE SERIES 1997A BONDS - Interest on the Series 1997A Bonds" and "- Determination of Interest Rates" in the main body of this Official Statement.

"Annual Rate Bonds" shall mean the Series 1997A Bonds bearing interest at the Annual Rate.

"Annual Rate Period" shall mean the period beginning on, and including, any June 1 (or, if not a Business Day, on the next succeeding Business Day) and ending on, and including, the next May 31, except that in the event of Conversion to Annual Rate Bonds, the first "Annual Rate Period" means the period beginning on, and including, the Conversion Date and ending on, and including, the next succeeding May 31.

"Authority Guarantee Agreements" shall mean: (i) the Agreement to Endorse Loans, dated October 3, 1994, between the Authority and the State Guarantee Agency, including any amendment thereof entered into in accordance with the provisions thereof; (ii) the Agreement to Guarantee Loans, dated September 30, 1986, between the Authority and United Student Aid Funds, Inc., including any amendment thereof entered into in accordance with the provisions thereof; and (iii) any similar guarantee or agreement issued by the Secretary or any Guarantee Agency to the Authority and consented to by the Credit Facility Provider in writing, including any amendment thereof entered into in accordance with the provisions thereof and of the Bond Resolution and consented to by the Credit Facility Provider in writing.

“Authority Request,” “Authority Order,” “Authority Certificate” and “Authority Consent” shall mean, respectively, a written request, order, certificate or consent signed in the name of the Authority by an Authorized Officer and delivered by overnight or same-day mail or courier, telex, telegram or other electronic means or by hand delivery, or in the case of an Authority Request or an Authority Order, an oral request by an Authorized Officer promptly confirmed in writing by such an Authorized Officer in any manner specified above in this definition.

“Authorized Denominations” shall mean: (i) with respect to the Series 1996A or Series 1997A Bonds bearing interest at a Fixed Rate, \$5,000 and any integral multiple thereof; (ii) with respect to the Series 1996A or Series 1997A Bonds bearing interest at a Variable Rate, \$100,000 and any integral multiple of \$5,000 in excess thereof; and (iii) with respect to any Additional Bonds or Notes, the Authorized Denomination provided in the Supplemental Bond Resolution authorizing the issuance of such Additional Bonds and Notes.

“Authority Swap Payment” shall mean a payment required to be made by or on behalf of the Authority due to a Swap Counterparty pursuant to a Swap Agreement other than a termination payment (unless the Credit Facility Provider consents to the payment of such termination payment).

“Authorized Officer,” when used with reference to the Authority, shall mean the Chairman, the Vice Chairman, the President, the Secretary or an Assistant Secretary of the Authority or any other person designated in writing from time to time by the trustees of the Authority.

“Available Moneys” shall mean: (i) while a Credit Facility is in effect, moneys which are (a) continuously on deposit with the Trustee in trust for the benefit of the Registered Owners in a separate and segregated account in which only Available Moneys are held and (b) proceeds of (1) the Bonds and Notes received contemporaneously with the issuance and sale of the Bonds and Notes, (2) payments made under the Credit Facility or the Liquidity Facility, (3) payments made by the Authority if at the time of the deposit of such payments and for a period of at least 123 days thereafter no petition in bankruptcy under the United States Bankruptcy Code or similar law is pending with respect to the Authority unless such petition shall have been dismissed and such dismissal shall be final and not subject to appeal, (4) any moneys for which the Trustee has received a written opinion of nationally recognized counsel experienced in bankruptcy matters and acceptable to the Trustee, the Rating Agencies and the Credit Facility Provider to the effect that payment of such moneys to the Registered Owners would not constitute an avoidable preference under Section 547 of the United States Bankruptcy Code in the event the Authority were to become a debtor under the United States Bankruptcy Code, or (5) income derived from the investment of the foregoing; and (ii) if a Credit Facility is not in effect, any moneys available under the Bond Resolution

“Bank Bonds” shall mean those Bonds and Notes purchased pursuant to a purchase drawing, if applicable, under the Liquidity Facility, or purchased by any Liquidity Facility Provider pursuant to a related Liquidity Facility.

“Bank Rate” shall mean the Interest Rate determined in accordance with the Bond Resolution. “Bank Rate” shall be the lesser of the maximum rate permitted by applicable law or the rate of interest charged under the Liquidity Facility.

“Bond Payment Date” shall mean any date on which principal or interest is due and payable on such Bond or Note, or any date on which an Authority Swap Payment is due and payable.

“Bonds and Notes” shall mean the Series 1996A Bonds, the Series 1997A Bonds and any Additional Bonds and Notes issued and secured pursuant to the Bond Resolution.

"Business Day" shall mean a day of the year other than: (i) a day on which commercial banks located in the cities in which the principal office of any of the Trustee, the Remarketing Agent, the Tender Agent, the Credit Facility Provider or the Liquidity Facility is located are required or authorized by law to close; (ii) a day on which The New York Stock Exchange, Inc. is closed; and (iii) a day on which the office of the Credit Facility Provider or the Liquidity Facility Provider at which a payment under the Credit Facility or Liquidity Facility, respectively, is required to be made is closed.

"Cash Flow Certificate" shall mean a report prepared by the Cash Flow Consultant and acceptable to the Credit Facility Provider based upon assumptions used with respect to relevant variables that are consistent with criteria approved by the Credit Facility Provider showing, with respect to the period extending from the date of the Cash Flow Certificate to each Maturity of the Bonds and Notes: (i) all Revenues and Recoveries of Principal anticipated to be received during such period, taking into account any rebates expected to be payable to student borrowers; (ii) the application of all Revenues and Recoveries of Principal in accordance with the provisions of the Bond Resolution, taking into account investment earnings, if any; and (iii) resulting balances; provided that the Cash Flow Certificate must show that anticipated Revenues and Recoveries of Principal will be at least sufficient and available to pay all Servicing Fees, Program Expenses and Administrative Expenses payable under the Bond Resolution and the debt service on all Obligations during such period.

"Cash Flow Consultant" shall mean any Person appointed by the Authority and acceptable to the Credit Facility Provider to prepare the Cash Flow Certificate and other cash flow projections.

"Claim Adjustment" shall mean: (i) amounts payable to a Guarantee Agency as a result of a determination that the status of any Eligible Loan was "current" subsequent to the submission of a default claim with respect to such Eligible Loan; and (ii) amounts payable to a Eligible Lender as a reimbursement for amounts paid by the Eligible Lender to repurchase such Eligible Loan pursuant to its loan purchase agreement as a result of a determination that such Eligible Loan was not required to be repurchased.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time and the Treasury Regulations, including temporary and proposed regulations, relating to such sections which are applicable to the Bonds and Notes or the use of the proceeds thereof. A reference to any specific section of the Code shall be deemed also to be a reference to the comparable provisions of any enactment which supersedes or replaces the Code thereunder from time to time.

"Conversion" shall mean the conversion from time to time in accordance with the terms and provisions of the Bond Resolution from one interest rate mode to another interest rate mode.

"Conversion Date" shall mean the effective date of any Conversion and shall mean the Business Day succeeding any Quarterly Rate Period, any Semiannual Rate Period and any Annual Rate Period.

"Counterparty Swap Payments" shall mean any payment to be made to, or for the benefit of, the Authority under a Swap Agreement.

"Credit Facility" shall mean any credit instruments (whether a letter of credit, insurance policy, surety bond or other agreement) which assure payment of the principal of (whether upon acceleration, maturity, redemption or otherwise) and all or a specified amount of interest on the Series 1996A Bonds or the Series 1997A Bonds, including any Alternate Credit Facility with respect to either series of Bonds and Notes.

"Credit Facility Agreement" shall mean any agreements pursuant to which a Credit Facility or an Alternate Credit Facility is issued.

“Credit Facility Provider” shall mean the Person or Persons which issue a Credit Facility and are liable thereon and any issuer of an Alternate Credit Facility. The initial Credit Facility Provider is MBIA Insurance Corporation, and its successors and assigns.

“Eligible Lender” shall mean any *“eligible lender”*, as defined in the Higher Education Act, and which has received an eligible lender designation from the Secretary with respect to Eligible Loans.

“Eligible Loan” shall mean (unless determined otherwise in a Supplemental Bond Resolution pursuant to which particular Bonds or Notes were issued) a Student Loan which: (i) has been or will be made to an eligible borrower to finance the post-secondary education of (a) a resident of the State attending a post-secondary school within or without the State, or (b) a resident of a state other than the State attending a post-secondary school located within the State; (ii) is Guaranteed or Insured; (iii) is an *“eligible loan”* as defined in Section 438 of the Higher Education Act for purposes of receiving special allowance payments and is eligible to receive special allowance payments; (iv) bears interest at a rate of interest not less than or in excess of the applicable maximum rate of interest set forth in the Act for that loan except for loans made pursuant to an Authority program approved by the Credit Facility Provider which reduces the interest rate on the loan; or (v) is otherwise permitted to be acquired by the Authority pursuant to its Program (provided a favorable opinion is received with respect thereto, and provided further that the Trustee and the Authority shall have received the written consent of the Credit Facility Provider to such acquisition).

“Expiration Date” shall mean the date on which an outstanding Credit Facility or Liquidity Facility is to terminate pursuant to the terms thereof, including any extension of such date but not including any early termination because of the occurrence of an event of default (other than a nonpayment of fees thereunder) under the related Liquidity Facility Agreement or Credit Facility Agreement.

“Facility Substitution” shall mean the delivery of an Alternate Credit Facility or Alternate Liquidity Facility.

“Financed” when used with respect to Eligible Loans, shall mean or refer to Eligible Loans: (i) acquired by the Authority with balances in the Student Loan Fund or otherwise deposited in or accounted for in the Student Loan Fund or otherwise constituting a part of the Trust Estate; and (ii) Eligible Loans substituted or exchanged for Financed Eligible Loans, but does not include Eligible Loans released from the lien of the Bond Resolution and sold or transferred, to the extent permitted by the Bond Resolution.

“Fixed Rate” shall mean, with respect to any Series 1997A Bonds, the rate of interest fixed to the stated maturity of the Series 1997A Bonds and not subject to adjustment.

“Fixed Rate Bonds” shall mean any Series 1997A Bonds bearing interest at a Fixed Rate.

“Fixed Rate Conversion Date” shall mean, with respect to the Series 1997A Bonds, the date on which a Fixed Rate becomes effective for the Series 1997A Bonds.

“Funds” or *“Funds and Accounts”* shall mean the funds, accounts or subaccounts created by the Bond Resolution. See the caption *“SECURITY AND SOURCES OF PAYMENT — Flow of Funds”* and *“ — Creation of Accounts”* in the main body of this Official Statement.

“Governmental Obligations” shall mean any of the following: direct general obligations of, or obligations the full and timely payment of the principal of and interest on which is unconditionally guaranteed by, the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury of the United States of America).

"Guarantee" or *"Guaranteed"* shall mean with respect to an Eligible Loan, the insurance or guarantee by the Guarantee Agency pursuant to such Guarantee Agency's Guarantee Agreement of the maximum percentage of the principal of and accrued interest on such Eligible Loan allowed by the terms of the Higher Education Act with respect to such Eligible Loan at the time it was originated and the coverage of such Eligible Loan by the federal reimbursement contracts, providing, among other things, for reimbursement to the Guarantee Agency for payments made by it on defaulted Eligible Loans insured or guaranteed by the Guarantee Agency of at least the minimum reimbursement allowed by the Higher Education Act with respect to a particular Eligible Loan.

"Guarantee Agency" shall mean the State Guarantee Agency, United Student Aid Funds, Inc., and/or any other guarantee agency, provided that the Authority and the Trustee receive the written consent of the Credit Facility Provider to such additional or substitute Guarantee Agency.

"Insurance" or *"Insured"* or *"Insuring"* shall mean, with respect to a student loan, the insuring by the Secretary under the provisions of the Higher Education Act of the maximum allowable percentage of the principal of and accrued interest on such student loan.

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

"Interest Payment Date" shall mean, with respect to the Series 1996A Bonds and the Series 1997A Bonds, each June 1 and December 1 and, with respect to any Additional Bonds and Notes, the Interest Payment Dates established for such Additional Bonds and Notes.

"Investment Instructions" shall mean the investment instructions delivered to the Authority and the Trustee by Bond Counsel on the date of issuance for each series of Bonds and Notes and any amendments or supplements thereto.

"Investment Securities" shall mean any of the following which are at the time of investment legal investments for the funds of the Authority under the laws of the State, including the Act, for the moneys proposed to be invested (provided that the Authority may direct the Trustee in writing to exclude or limit any of the following).

(a) Governmental Obligations.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of the United States of America (stripped securities are only permitted if they have been stripped by the agency itself): (i) Farmers Home Administration (FmHA) Certificates of beneficial ownership; (ii) Federal Housing Administration (FHA) Debentures; (iii) General Services Administration Participation certificates; (iv) Government National Mortgage Association (GNMA or *"Ginnie Mae"*) guaranteed mortgage-backed bonds or guaranteed pass-through obligations; (v) U.S. Maritime Administration Guaranteed Title XI financing; (vi) U.S. Department of Housing and Urban Development (HUD) Project Notes or Local Authority Bonds; (vii) U.S. Export-Import Bank (EXIM Bank) direct obligations or fully guaranteed certificates of beneficial ownership; and (viii) Federal Financing Bank.

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith and credit U.S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself): (i) Federal Home Loan Bank System Senior debt obligations; (ii) Federal Home Loan Mortgage Corporation (FHLMC or *"Freddie Mac"*) Participation Certificates or Senior debt obligations; (iii) Federal National Mortgage Association (FNMA or *"Fannie Mae"*) Mortgage-backed securities and senior debt obligations; (iv) Student Loan Marketing Association (SLMA or *"Sallie"*

Mae”) Senior debt obligations; (v) Resolution Funding Corp. (REFCORP) obligations; and (vi) Farm Credit System consolidated systemwide bonds and notes.

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by S&P of “AAAm-G”, “AAAm”, or “AAm”; and if rated by Moody’s are rated “Aaa”, “Aa1” or “Aa2”.

(e) Certificates of deposit secured at all times by collateral described in (a) and/or (b) above. Such certificates must be issued by commercial banks, savings and loan associations or mutual savings banks. The collateral must be held by a third party and the bondholders must have a perfected first security interest in the collateral.

(f) Certificates of deposit, savings accounts, deposit accounts or money market deposits which are fully insured by FDIC, including BIF and SAIF.

(g) Investment Agreements, including GIC’s, acceptable to the Credit Facility Provider and S&P.

(h) Commercial paper rated, at the time of purchase, “Prime - 1” by Moody’s or “A-1” or better by S&P.

(i) Bonds or notes issued by any state or municipality which are rated by Moody’s or S&P in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of “Prime - 1” or “A3” or better by Moody’s and “A-1” or “A” or better by S&P.

(k) Repurchase agreements for thirty (30) days or less must follow the criteria provided in the Bond Resolution. Repurchase agreements which exceed thirty (30) days must be acceptable to the Credit Facility Provider.

“*Liquidity Facility*” shall mean any agreements (whether a letter of credit, standby bond purchase agreement, or other agreement) which assures payment of the purchase price of the Series 1996A Bonds or the Series 1997A Bonds, including any Alternate Liquidity Facility with respect to either series of Bonds and Notes.

“*Liquidity Facility Agreement*” shall mean any agreements pursuant to which a Liquidity Facility or Alternate Liquidity Facility is issued and which is approved in writing by the Credit Facility Provider.

“*Liquidity Facility Provider*” shall mean the Person or Persons which issue a Liquidity Facility and are liable thereon. The initial Liquidity Facility Provider for the Series 1996A Bonds and the Series 1997A Bonds is Student Loan Marketing Association.

“*Maximum Rate*” shall mean the lesser of: (i) 12% per annum; or (ii) the maximum rate of interest permitted under State law.

“*Moody’s*” shall mean Moody’s Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, “*Moody’s*” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority.

"Obligations" shall mean, collectively, the Bonds and Notes, any Authority Swap Payment and any amounts payable to the Credit Facility Provider or the Liquidity Facility Provider pursuant to the Credit Facility and the Liquidity Facility, respectively.

"Outstanding" shall mean, when used in connection with any Bond or Note, a Bond or Note which has been executed and delivered pursuant to the Bond Resolution which at such time remains unpaid as to principal or interest, and when used in connection with a Swap Agreement, a Swap Agreement which has not expired or been terminated, unless in each case provision has been made for such payment, excluding Bonds or Notes which have been replaced pursuant to the Bond Resolution.

"Person" shall mean any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

"Program Expenses" shall mean the fees and expenses of the Trustee, any Tender Agent, any broker-dealer, any Remarketing Agent, any paying agent, any registrar, any authenticating agent, any securities depository, and any co-registrar or transfer agent appointed under the Bond Resolution and fees, payments and expenses payable with respect to the Rating Agencies, the Liquidity Facility, the Credit Facility, legal counsel, any rebate consultant, Accountant's fees and the Cash Flow Consultant's fees, in each case as such fees and expenses are related to the Bond Resolution, but excluding Administrative Expenses and Servicing Fees.

"PSA" shall mean the Public Securities Association, its successors and assigns.

"PSA Municipal Swap Index" shall mean 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 Remarketing Agent, and effective from such date.

"Purchase Date" shall mean: (i) in the case of Weekly Rate Bonds, the Business Day such Weekly Rate Bonds are to be purchased; and (ii) in the case of all Series 1997A Bonds, any Business Day on which the Series 1997A Bonds are subject to mandatory purchase. *"Purchase Date"* shall also mean a Facility Substitution Date and, in the case of conversion of the Series 1997A Bonds, the Conversion Date or next succeeding Business Day if not a Business Day.

"Purchase Price" shall mean, with respect to any Series 1997A Bond, the principal amount thereof plus accrued interest, if any, thereon to the respective Purchase Date, provided, however, that if the Purchase Date is also an Interest Payment Date, the Purchase Price shall not include accrued interest.

"Quarterly Rate" shall mean the Interest Rate determined in accordance with the Bond Resolution. See the captions, "DESCRIPTION OF THE SERIES 1997A BONDS — Interest on the Series 1997A Bonds" and " — Determination of Interest Rates" in the main body of this Official Statement.

"Quarterly Rate Bonds" shall mean Series 1997A Bonds bearing interest at the Quarterly Rate.

"Quarterly Rate Period" shall mean the period beginning on the day following the end of the last period of the preceding interest rate mode and extending to, but not including, the first Business Day of the third calendar month after the calendar month in which such period commenced.

"Rating" shall mean one of the rating categories of Moody's or S&P or any other Rating Agency, provided Moody's, S&P or any other Rating Agency, as the case may be, is currently rating the Bonds or Notes.

"*Rating Agencies*" shall mean Moody's and S&P, if and to the extent such entity is then rating the Bonds or Notes at the request of the Authority, and any other rating service requested by the Authority to rate any Bonds or Notes.

"*Rebate Amount*" shall mean the amount computed in accordance with the corresponding Tax Regulatory Agreement.

"*Record Date*" shall mean: (i) with respect to the Series 1996A Bonds and the Series 1997A Bonds bearing interest at a Weekly Rate or a Quarterly Rate, the Business Day preceding each Interest Payment Date for the Series 1996A Bonds and the Series 1997A Bonds, respectively; (ii) with respect to any Series 1996A Bonds and any Series 1997A Bonds bearing interest at a Semiannual Rate, an Annual Rate or a Fixed Rate, the fifteenth day of the calendar month preceding each Interest Payment Date; and (iii) with respect to any Additional Bond and Notes, the Record Date established for such Additional Bonds and Notes by the Supplemental Bond Resolution authorizing the issuance of such Additional Bonds and Notes.

"*Recoveries of Principal*" shall mean, among other things, 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 Financed Eligible Loan as a recovery of the principal amount thereof, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from the sale, assignment, transfer, reallocation or other disposition of such loans, and any payments representing principal from claim payments on the guarantee or insurance of any such loan, but excludes any Claim Adjustments relating to principal on an Eligible Loan and any Recoveries of Principal released from the lien of the Trust Estate as provided in the Bond Resolution.

"*Redemption Price*" shall mean, with respect to the Series 1996A Bonds and the Series 1997A Bonds, the principal amount of the Series 1996A Bonds and the Series 1997A Bonds being redeemed, respectively, and, with respect to any Additional Bonds and Notes, the Redemption Price established for such Additional Bonds and Notes by the Supplemental Bond Resolution authorizing the issuance of such Additional Bonds and Notes.

"*Registered Owner*" shall mean the Person in whose name a Bond or Note is registered on the registration books maintained by the Trustee, and shall also mean with respect to a Swap Agreement, any Swap Counterparty unless the context otherwise requires.

"*Revenues*" shall mean, among other things:

(a) All payments, proceeds, charges and other income received by or on behalf of the Authority, or by the Trustee for the account of the Authority, including, (i) scheduled, delinquent and advance payments of interest, (ii) payouts or prepayments of interest, (iii) Interest Benefit or Special Allowance Payments from the Secretary, (iv) any guarantee or insurance proceeds with respect to interest, from any Financed Eligible Loan held as a part of the Trust Estate or as a result of the sale or alienation thereof;

(b) All interest earned or gain realized from the investment of amounts in any Fund or Account (other than amounts credited or required to be deposited to the Rebate Fund), and

(c) All payments received by the Authority pursuant to a Swap Agreement, but *excludes* Recoveries of Principal, Claim Adjustments relating to interest on an Eligible Loan and any Revenues released from the lien of the Trust Estate as provided in the Bond Resolution.

"*Semiannual Rate*" shall mean the Interest Rate determined semiannually in accordance with the Bond Resolution. See the captions, "DESCRIPTION OF THE SERIES 1997A BONDS - interest on the Series 1997A Bonds" and "- Determination of Interest Rates" in the main body of this Official Statement.

"Semiannual Rate Bonds" shall mean Series 1997A Bonds bearing interest at the Semiannual Rate.

"Semiannual Rate Period" shall mean the period beginning on, and including, any June 1 or December 1 (or, if not a Business Day, the next succeeding Business Day) and ending on, and including, the next May 31 or November 30, as the case may be, except that in the event of Conversion to Semiannual Rate Bonds, the first "Semiannual Rate Period" means the period beginning on, and including, the Conversion Date and ending on, and including, the next succeeding May 31 or November 30.

"Servicer" shall mean the Authority, acting as the servicer of the Financed Eligible Loans and any other entity appointed by the Authority as a servicer with respect to Financed Eligible Loans upon the receipt by the Authority and the Trustee of the written consent of the Credit Facility Provider to the appointment of such Servicer.

"Servicing Agreement" shall mean, collectively, each servicing agreement between the Authority and a Servicer consented to in writing by the Credit Facility Provider under which the Servicer agrees to act as the Authority's agent in administering and collecting Financed Eligible Loans in accordance with the Bond Resolution, and any amendments thereto consented to in writing by the Credit Facility Provider.

"Servicing Fees" shall mean any fees payable by the Authority to a Servicer (including the Authority) in respect of Financed Eligible Loans.

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

"S&P" shall mean Standard & Poor's Ratings Services, a division of McGraw-Hill, Inc., a corporation organized and existing under the laws of the State of New York, its successors and assigns, and if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Authority.

"Student Loan Purchase Agreement" shall mean a loan purchase agreement entered into for the purchase of Eligible Loans.

"Supplemental Bond Resolution" shall mean any Supplemental Bond Resolution adopted by the Authority amending and/or supplementing the Bond Resolution.

"Swap Agreement" shall mean a written contract or agreement between the Authority and a Swap Counterparty and approved by the Credit Facility Provider, which provides that the Authority's obligations thereunder will be conditioned on the absence of (i) a failure by the Swap Counterparty to make any payment required thereunder when due and payable, or (ii) a default thereunder with respect to the financial status of the Swap Counterparty, and:

(a) under which the Authority is obligated to pay (whether on a net payment basis or otherwise) on one or more scheduled and specified Swap Payment Dates, the Authority Swap Payments in exchange for the Swap Counterparty's obligation to pay (whether on a net payment basis or otherwise), or to cause to be paid, to the Authority, Swap Payments on one or more scheduled and specified Swap Payment Dates in the amounts set forth in the Swap Agreement;

(b) for which the Authority's obligation to make Authority Swap Payments is secured by a pledge of and lien on the Trust Estate on an equal and ratable basis with the Authority's Outstanding Bonds and Notes and which Authority Swap Payments are equal in priority with the Authority's Outstanding Bonds and Notes; and

(c) under which Counterparty Swap Payments are to be made directly to the Trustee for deposit into the Student Loan Sinking Fund.

“*Swap Counterparty*” shall mean a third party approved by the Credit Facility Provider which, at the time of entering into a Swap Agreement, has at least an “Aa2/P-1” rating, or its equivalent, from Moody's, and which is obligated to make Counterparty Swap Payments under a Swap Agreement.

“*Swap Payment Date*” shall mean, with respect to a Swap Agreement, any date specified in the Swap Agreement on which both or either of the Authority Swap Payment and/or a Counterparty Swap Payment is due and payable under the Swap Agreement.

“*Tax Regulatory Agreement*” shall mean, collectively, the Tax Regulatory Agreements entered into between the Authority and the Trustee with respect to each series of tax-exempt Bonds and Notes, as each are amended or supplemented.

“*Value*” on any calculation date when required under the Bond Resolution shall mean the value of the Trust Estate calculated by the Authority as to (a) below and by the Trustee as to (b) through (e), inclusive, below, as follows:

(a) with respect to any Eligible Loan, the unpaid principal amount thereof plus any accrued but unpaid interest, Interest Benefit Payments and Special Allowance Payments, subject to adjustment if the Credit Facility Provider has given notice to the Authority that an amendment of any law of the United States will result in a materially lower rate of return on such Eligible Loan;

(b) with respect to any funds of the Authority held under the Bond Resolution and on deposit in any commercial bank or as to any banker's acceptance or repurchase agreement or investment contract, the amount thereof plus accrued but unpaid interest;

(c) with respect to any Investment Securities of an investment company, the bid price of the shares as reported by the investment company;

(d) as to investments the bid and asked prices of which are published on a regular basis in *The Wall Street Journal* (or, if not there, then in *The New York Times*), the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination; and

(e) as to investments the bid and asked prices of which are not published on a regular basis in *The Wall Street Journal* or *The New York Times*, (i) the lower of the bid prices at such time of determination for such investments by any two nationally recognized government securities dealers (selected by the Authority in its absolute discretion) at the time making a market in such investments, or (ii) the bid price published by a nationally recognized pricing service.

“*Variable Rate Bonds*” shall mean Weekly Rate Bonds, Quarterly Rate Bonds, Semiannual Rate Bonds and Annual Rate Bonds.

“*Variable Rates*” shall mean the Weekly Rate, the Quarterly Rate, the Semiannual Rate and the Annual Rate.

“*Weekly Rate*” shall mean the Interest Rate determined in accordance with the Bond Resolution. See the captions “DESCRIPTION OF THE SERIES 1997A BONDS — Interest on the Series 1997A Bonds” and “ — Determination of Interest Rates” in the main body of this Official Statement.

“*Weekly Rate Bonds*” shall mean Series 1997A Bonds bearing interest at the Weekly Rate.

“Weekly Rate Period” shall mean the period beginning on, and including, any Wednesday (or, if not a Business Day, on the next succeeding Business Day) and ending on, and including, the then next Tuesday (or the day immediately preceding the first day of the next Weekly Rate Period for Weekly Rate Bonds), except that in the event of a Conversion to Weekly Rate Bonds, the first *“Weekly Rate Period”* means the period beginning on, and including, the Conversion Date and ending on, and including, the second succeeding Tuesday (or the day immediately preceding the first day of the next Weekly Rate Period for Weekly Rate Bonds) unless the Conversion Date is a Tuesday or Wednesday, in which case it shall end on the first succeeding Tuesday.

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OKLAHOMA STUDENT LOAN AUTHORITY
 VARIABLE RATE DEMAND OBLIGATIONS, SERIES 1997A

MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
 Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
 [LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

 President

Attest.

 Assistant Secretary

SPECIMEN

ENDORSEMENT

Attached to Policy No. [] (the "Policy") issued by the MBIA Insurance Corporation (the "Insurer"), to the Paying Agent, as defined in the Policy issued with respect to the Obligations:

\$33,000,000
Oklahoma Student Loan Authority
Oklahoma Student Loan Bonds and Notes
Variable Rate Demand Obligations, Series 1997A

Notwithstanding the terms and conditions contained in the Policy, it is understood that (1) the Policy will be canceled upon delivery of an Alternate Credit Facility pursuant to the Bond Resolution (hereinafter defined) provided, however, that the Policy shall remain in effect with respect to any claims for Insured Amounts as described in clause (ii) or the first paragraph of the Policy resulting from payments made by or on behalf of the Issuer prior to the effective date of the cancellation of the Policy; (2) the Policy shall guarantee the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent of an amount equal to principal of and interest accrued on the Bank Bonds (as such terms are defined in the Series 1996A Bond Resolution adopted by the Issuer on November 4, 1996, as supplemented and amended by the Series 1997A Supplemental Bond Resolution adopted by the Issuer on May 5, 1997 (as so amended, the "Bond Resolution")) which are mandatorily redeemed in accordance with Section 3.02(b) of the Bond Resolution; and (3) the Policy shall guarantee the payment of Differential Interest Amount (as defined in the Bond Resolution) on the Bank Bonds no more frequently than once a month.

This Endorsement forms a part of the Policy, effective on the inception date of the Policy.

IN WITNESS WHEREOF, the Insurer has caused this Endorsement to be executed in facsimile on its behalf by its President and its Assistant Secretary, this [] day of May, 1997.

MBIA INSURANCE CORPORATION

By _____
President

By _____
Assistant Secretary

Attest:

01/812719

SPECIMEN

APPENDIX C

OKLAHOMA STUDENT LOAN AUTHORITY VARIABLE RATE DEMAND OBLIGATIONS, SERIES 1997A

OKLAHOMA STUDENT LOAN AUTHORITY
CUSIP BASE NUMBER: 679110

FINANCIAL INFORMATION AND OPERATING DATA

The presentation of financial information and operating data in this Appendix is intended to show recent historical information and is not intended to indicate future or continuing trends with respect to the Authority's education loan portfolios or the Series 1997A Bonds. The information herein is *not* information that is required for purposes of continuing disclosure of financial and operating data for the Series 1997A Bonds pursuant to an exemption under the Disclosure Rule.

The information provided herein is subject to change without notice, and the delivery hereof shall not, under any circumstances, create any implication that there has been no change after the date hereof. In addition, the delivery hereof shall not, under any circumstances, create any implication that there have been no other changes in the affairs of the Authority after the date of this Official Statement.

GENERAL

The Authority acts as an originating lender to student borrowers or their parents, purchases guaranteed education loans from other eligible lenders, and is also a Lender of Last Resort for the State Regents, acting as the State Guarantee Agency.

The Fiscal Year of the Authority is presently from July 1 of each year through June 30 of the next succeeding calendar year. The information presented herein is for the Fiscal Year ended March 31, 1997, unless otherwise noted.

The offices of the Authority are located at 4545 North Lincoln Boulevard, Suite 66, Oklahoma City, Oklahoma 73105. Its telephone number is (405) 556-9210; its facsimile transmission number is (405) 556-9255; and its general e-mail address is info@oslat.org.

ADMINISTRATION

Governing Board

The Authority was created by an express Trust Indenture dated August 2, 1972 for the benefit of the State. 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.

Executive Management

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 in his current position since July 1, 1990. 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. 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 has been employed by the Authority since July 8, 1991. 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., Controller and Vice President — Operations. 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. 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 American Institute of Certified Public Accountants.

Employment

The Authority has approximately 39 full time equivalent employees, including the individuals listed above.

LOAN FINANCE PROGRAMS

During the Fiscal Year ended June 30, 1996, total loan financing by the Authority in the FFEL Program was approximately as shown in the following table:

<u>Authority</u>	<u>Total Amount</u>	<u>Percent</u>
Origination of Basic Loans	\$27,031,000	67.4%
Origination of Consolidation Loans*	10,175,000	25.4
Origination of LLR Loans	174,000	0.4
Acquisition of Loans	<u>2,712,000</u>	<u>6.8</u>
Total Loans Financed	<u>\$40,092,000</u>	<u>100.0%</u>

*Of this amount, approximately 81% paid off loans owned by the Authority and approximately 19% paid off loans held by other eligible lenders.

LOAN PORTFOLIO DATA

General

The current principal balance of the Authority's Eligible Loan principal receivable from borrowers and average borrower indebtedness was approximately as shown in the following table at the respective dates shown.

<u>Holder</u>	<u>Eligible Loan Principal</u>	<u>Average Borrower Account</u>
Authority Total — 6/30/96	\$129,343,000	\$4,200
Authority Total — 3/31/97	\$151,065,000	\$4,424*

* Stafford Loans were an average Account size of approximately \$4,050; PLUS/SLS, \$3,800; and Consolidation Loans, \$12,850.

Loan Guarantee or Insurance

At March 31, 1997, the current principal balance of the Authority's loans managed, including loans owned by Network members and required to be sold to the Authority, were guaranteed (or insured) and had loan guarantee eligibility (percentage of the principal amount of a default claim approximately as shown in the following table.

<u>Guarantor</u>	<u>Principal Location</u>	<u>100% Guaranteed</u>	<u>98% Guaranteed</u>	<u>Total</u>
State Guarantee Agency	Oklahoma City, OK	28.7%	70.2%	98.9%
USAF	Indianapolis, IN	0.4	0.7	1.1
Secretary, USDE	Washington, DC	<u>0.0*</u>	<u>0.0</u>	<u>0.0*</u>
TOTAL		<u>29.1%</u>	<u>70.9%</u>	<u>100.0%</u>

*Less than 0.1%.

Loan Type

At March 31, 1997, the current principal balance of the Authority's Eligible Loans by loan type was approximately as shown in the following table:

<u>Loan Type</u>	<u>Percent of Total Portfolio</u>
Federal Stafford	
Subsidized	61.5%*
Unsubsidized	<u>15.6</u>
Total Stafford	77.1%
Federal SLS	2.9
Federal PLUS	6.9
Federal Consolidation	<u>13.1</u>
Loan Principal Receivable	<u>100.0%</u>

* Includes Federal Insured Student Loans insured directly by the Secretary of USDE.

Loan Status

At March 31, 1997, the current principal balance of the Authority's Eligible Loans by loan status was approximately as shown in the following table.

<u>Loan Type</u>	<u>Percent of Total Portfolio</u>
Interim Loans:	
In-School	30.7%
Grace	5.7
Deferment*	<u>9.5</u>
Sub-Total — Interim	45.9%
Repayment Loans:	
Current	32.0%
Delinquent < 30 days	7.8
Delinquent 30-180 days	6.8
Forbearance	<u>8.6</u>
Sub-Total - Repayment	52.4
Claim Loans:	<u>1.7</u>
Total	<u>100.0%</u>

* Approximately 58.6% of this category are subsidized Stafford loans on which the USDE pays interest during deferment; interest accrues as the responsibility of the borrower on the remainder.

Repayment Loan Delinquency

At March 31, 1997, the delinquency rates of the current principal balance of the Authority's Eligible Loans that were in Repayment status, including Forbearance status loans, was approximately as shown in the following table.

<u>Delinquency</u>	<u>Percent of Total Portfolio</u>
30 — 59 Days	7.0%
60 — 89 Days	5.3
90 — 119 Days	3.1
120 — 149 Days	1.6
150 — 179 Days	<u>1.0</u>
	<u>18.0%</u>

School Type

At March 31, 1997, the current principal balance of the Authority's Eligible Loans by school type, exclusive of Federal Consolidation Loans which are not reported by school type, was approximately as shown in the following table.

<u>School Type</u>	<u>Percent of Total Portfolio*</u>
University - 4 Year	73.8%
College - 2 Year	7.6
Vocational/Proprietary	<u>18.6</u>
Total	<u>100.0%</u>

*Excludes approximately \$19,876,000 Federal Consolidation Loans which are not reported by school type.

Loan Servicing

At March 31, 1997, the servicing of the current principal balance of the Authority's Eligible Loans was as shown in the following table.

<u>Servicer</u>	<u>Principal Location</u>	<u>Percent of Total Portfolio</u>
The Authority*	Oklahoma City, OK	100.0%

* Utilizing a remote servicing system database pursuant to an agreement with UNIPAC Service Corporation of Aurora, CO.

At March 31, 1997, the Authority serviced loans with a current principal balance totaling approximately \$165,435,000.

FINANCIAL STATEMENTS

The financial statements of the Authority are prepared on the basis of generally accepted accounting principles. The financial statements of the Authority for the Fiscal Years ended June 30, 1996 and 1995 were audited and reported on by KPMG Peat Marwick LLP, Oklahoma City, Oklahoma, independent certified public accountants. Such audited financial statements speak only as of their respective dates and KPMG Peat Marwick has not been requested, nor has it undertaken, to conduct any post-audit

review. A copy of such audited financial statements have been filed with the various Nationally Recognized Municipal Securities Information Repositories ("*NRMSIRs*") and are also attached hereto.

The Bonds and Notes, including the Series 1997A Bonds, and the interest thereon, are not general obligations of the Authority, but rather are limited and special revenue obligations of the Authority secured by, and payable solely from, the assets of the Trust Estate. The audited financial statements attached hereto are intended only as background information on the Authority and its overall operations.

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OKLAHOMA STUDENT LOAN AUTHORITY
Financial Statements
June 30, 1996 and 1995

(With Independent Auditors' Report Thereon)

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700 Oklahoma Tower
Oklahoma City, OK 73102-5671

100 West Fifth Street
Suite 310
Tulsa, OK 74103

INDEPENDENT AUDITORS' REPORT

Trustees
Oklahoma Student Loan Authority:

We have audited the accompanying balance sheets of the Oklahoma Student Loan Authority, a component unit of the state of Oklahoma, as of June 30, 1996 and 1995, 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, 1996 and 1995, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 11, 1996, on our consideration of the Oklahoma Student Loan Authority's internal control structure, and a report dated October 11, 1996, on its compliance with laws and regulations.

KPMG Peat Marwick LLP

Oklahoma City, Oklahoma
October 11, 1996

OKLAHOMA STUDENT LOAN AUTHORITY

**Balance Sheets
June 30, 1996 and 1995**

<u>Assets</u>	<u>1996</u>	<u>1995</u>
Cash	\$ 645,954	\$ 349,180
Investments	37,735,483	21,765,524
Interest receivable	2,473,004	3,503,467
Loans, net of allowance for loan losses	128,040,036	111,040,802
Equipment and other assets, net of accumulated depreciation	<u>1,097,575</u>	<u>814,558</u>
TOTAL ASSETS	<u>\$169,992,052</u>	<u>\$137,473,531</u>

Liabilities and Retained Earnings

Accounts payable and other accrued expenses	343,365	392,277
Accrued interest payable	1,781,472	1,609,584
Notes payable	58,875,000	33,336,075
Bonds payable	<u>75,850,000</u>	<u>71,870,000</u>
Total liabilities	136,849,837	107,207,936
Retained earnings	<u>33,142,215</u>	<u>30,265,595</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$169,992,052</u>	<u>\$137,473,531</u>

See accompanying notes to financial statements.

OKLAHOMA STUDENT LOAN AUTHORITY

**Statements of Operations and Retained Earnings
Years Ended June 30, 1996 and 1995**

	1996	1995
Interest income:		
Loan interest income:		
From borrowers	\$ 5,808,171	\$ 4,062,771
From U.S. Department of Education (USDE)	4,189,928	4,668,223
Investment interest income	2,273,371	1,592,395
Total interest income	12,271,470	10,323,389
Interest expense	7,094,244	6,183,073
Net interest income	5,177,226	4,140,316
Other operating expense:		
Administrative	1,665,248	1,610,259
External loan servicing fees	366,939	370,600
Professional fees	133,946	138,918
Lender fees	134,473	175,136
Total other operating expense	2,300,606	2,294,913
Net income	2,876,620	1,845,403
Retained earnings, beginning of year	30,265,595	28,420,192
Retained earnings, end of year	\$ 33,142,215	\$ 30,265,595

See accompanying notes to financial statements.

OKLAHOMA STUDENT LOAN AUTHORITY

**Statements of Cash Flows
Years Ended June 30, 1996 and 1995**

	1996	1995
Cash flows from operating activities:		
Net income	\$ 2,876,620	\$ 1,845,403
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	252,728	210,745
Interest expense	7,094,244	6,133,379
Investment interest income	(2,273,371)	(1,592,395)
Decrease (increase) in assets:		
Loans, net	(17,137,818)	(14,882,574)
Interest receivable	1,082,358	(1,352,469)
Decrease in liabilities:		
Accounts payable and other accrued expenses	(48,912)	(201,027)
	(8,154,151)	(9,838,938)
Net cash used in operating activities		
Cash flows from non capital financing activities:		
Advances on notes payable	58,800,000	15,582,000
Proceeds from issuance of bonds	5,980,000	32,200,000
Payments on notes payable	(33,261,075)	(29,694,645)
Payments on bonds payable	(2,000,000)	(2,010,000)
Interest paid on bonds and notes	(6,922,356)	(6,314,402)
Other payments for non capital financing activity	(302,639)	(258,860)
	22,293,930	9,504,093
Net cash provided by non capital financing activities		

OKLAHOMA STUDENT LOAN AUTHORITY

**Statements of Cash Flows
Years Ended June 30, 1996 and 1995
(Continued)**

	<u>1996</u>	<u>1995</u>
Cash flows from investing activities:		
Purchases of equipment and other depreciable assets	\$ (94,523)	\$ (30,542)
Proceeds from maturity of investments	76,318,805	69,363,890
Proceeds from sale of investments	0	3,437,670
Purchases of investments	(92,288,763)	(73,752,870)
Investment interest received	<u>2,221,476</u>	<u>1,516,494</u>
Net cash provided by (used in) investing activities	<u>(13,843,005)</u>	<u>534,642</u>
Net increase in cash	296,774	199,797
Cash at beginning of year	<u>349,180</u>	<u>149,383</u>
Cash at end of year	\$ <u><u>645,954</u></u>	\$ <u><u>349,180</u></u>

See accompanying notes to financial statements.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements June 30, 1996 and 1995

(1) Reporting Entity and 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 post secondary educational 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 for Middle Income Borrowers (Unsubsidized Stafford), Federal Supplemental Loans for Students (SLS), Federal Parent Loans for Undergraduate Students (PLUS) and Federal Consolidation Loans (Consolidation). These Federal Family Education Loan (FFEL) Program loans are guaranteed 100% (with certain exceptions, 98% guaranteed for loans first disbursed on or after October 1, 1993) by the Oklahoma State Regents for Higher Education, Guaranteed Student Loan Program (State Guarantee Agency) which is reinsured by the United States Department of Education (USDE), or guaranteed 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 performs origination and interim status servicing for other FFEL Program lenders in Oklahoma in addition to providing a secondary market for FFEL Program loans for Oklahoma financial institutions. As of June 30, 1996, the Authority serviced approximately \$7,000,000 in FFEL loans for other Oklahoma financial institutions.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

(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 FFEL Program, the FISL 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, revenues are recognized when earned and expenses are recorded when incurred. In accordance with the provisions of Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority utilizes all Financial Accounting Standards Board Statements as the Authority's accounting principles, unless such Statements are in direct conflict with Statements issued by the GASB.

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

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.

Allowance for Loan Loss

All of the loans made or acquired by the Authority are guaranteed as noted above. There is still risk to the Authority if the loans should lose their guarantee. The Authority has established cure and recovery procedures to be applied to loans that have lost their guarantee. If the cure and recovery procedures are not successful, the loan will be written-off as uncollectible. Additionally, the Authority is at risk for 2% of the loans with first disbursement on or after October 31, 1993. As of June 30, 1996, approximately \$73,000,000 of the Authority's loans

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

are guaranteed at the 98% level. The allowance for loan losses was established by the management of the Authority to provide for these two types of losses. 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. The allowance for loan losses at June 30, 1996 and 1995 were approximately \$1,997,000 and \$1,450,000, respectively.

Investments

Investments consist of repurchase agreements and certain government obligations. Applicable Oklahoma statutes authorize certain types of investments the Authority can utilize. As of June 30, 1996 and 1995, the Authority was in compliance with these investment requirements.

The Authority adopted the provisions of Statement of Financial Accounting Standards No. 115, Accounting for Certain Investments in Debt and Equity Securities, (SFAS 115) at July 1, 1994. According to the requirements of SFAS 115, the Authority has classified its debt and marketable equity securities into the following categories:

Held-to-Maturity - Securities which the Authority has the ability and intent to hold until maturity and are recorded at amortized cost.

Available for Sale - All other investments of the Authority not included in Held-to-Maturity are classified as available for sale and are recorded at their approximate fair value.

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. Interest income from USDE for the years ended June 30, 1996 and 1995 was approximately \$3,537,000 and \$3,272,000, respectively. The other type of interest payment from the USDE is "Special Allowance Payments" which 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. Special allowance income from USDE for the

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

years ended June 30, 1996 and 1995 was approximately \$598,000 and \$1,396,000, respectively.

Income Taxes

As a State beneficiary trust, the income of the Authority earned in the exercise of its essential function is exempt from state and federal income taxes.

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. Accumulated depreciation and amortization on capitalized assets at June 30, 1996 and 1995 were approximately \$253,000 and \$305,000 respectively. 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.

Reclassifications

Certain 1995 balances have been reclassified to conform with the 1996 presentation.

(3) Investments

The Authority invests its idle cash in repurchase agreements, U.S. Treasury securities and U.S. Treasury based mutual funds. All of the Authority's investments are held either in the Authority's name or for the account of the Authority except for a repurchase agreement with an approximate value of \$2,260,000 and \$2,400,000 as of June 30, 1996 and 1995, respectively. The securities underlying this repurchase agreement are held by an independent custodian in the name of the seller of the purchased securities. Cash is insured by the Federal Deposit Insurance Corporation. Repurchase agreements are collateralized by U.S. government securities at 100%. The investments consist of the following at June 30, 1996 and 1995:

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

	1996			
<u>Available for Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
U.S. Treasury Securities - unencumbered	\$ 4,813,462	\$ 0	\$ 0	\$ 4,813,462
Repurchase agreements - pledged (A)	5,428,800	0	0	5,428,000
U.S. Treasury based Mutual Funds - unencumbered	6,092,167	0	0	6,092,167
pledged (A)	<u>17,036,758</u>	<u>0</u>	<u>0</u>	<u>17,036,758</u>
Total Available for Sale	33,371,187	0	0	33,371,187
<u>Held to Maturity</u>				
U.S. Treasury Securities - unencumbered	<u>4,364,296</u>	<u>66,704</u>	<u>0</u>	<u>4,431,000</u>
Total Investments	<u>\$37,735,483</u>	<u>\$ 66,704</u>	<u>\$ 0</u>	<u>\$ 37,802,187</u>

	1995			
<u>Available for Sale</u>	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Market Value</u>
U.S. Treasury Securities - unencumbered	\$ 4,813,462	\$ 0	\$ 0	\$ 4,813,462
Repurchase agreements - pledged (A)	4,682,200	0	0	4,682,200
U.S. Treasury based Mutual Funds - unencumbered	2,493,595	0	0	2,493,595
pledged (A)	<u>5,384,502</u>	<u>0</u>	<u>0</u>	<u>5,384,502</u>
Total Available for Sale	\$17,373,759	0	0	\$17,373,759
<u>Held to Maturity</u>				
U.S. Treasury Securities - unencumbered	<u>4,391,765</u>	<u>126,358</u>	<u>0</u>	<u>4,518,123</u>
Total investments	<u>\$21,765,524</u>	<u>\$ 126,358</u>	<u>\$ 0</u>	<u>\$ 21,891,882</u>

The estimated market values of investments are based upon available market data.

The carrying value and estimated market value of investments at June 30, 1996 are shown below by contractual maturity.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

	<u>Amortized Cost</u>	<u>Estimated Market Value</u>
Available for Sale		
Due within one year	\$30,359,780	\$30,359,780
Due after 1 but within 5 years	<u>3,011,407</u>	<u>3,011,407</u>
Total	<u>\$33,371,187</u>	<u>\$33,371,187</u>
Held to Maturity		
Due after 1 but within 5 years	\$ <u>4,364,296</u>	\$ <u>4,431,000</u>

(A) Certain investments of the Authority are pledged and serve as collateral for the various obligations of the Authority. The pledged investments are held by the State Treasurer and Boatmen's First National Bank of Oklahoma (Trustee Bank) in their capacity as trustee and paying agent for the Authority. The pledged investments, at amortized cost, consist of the following at June 30, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
<u>State Treasurer</u>		
U.S. Treasury based mutual funds	\$ 177,412	\$ 12,983
<u>Trustee Bank</u>		
Repurchase agreements	5,428,800	4,682,200
U.S. Treasury based mutual funds	<u>16,859,346</u>	<u>5,371,519</u>
Total Pledged Investments	<u>\$22,465,558</u>	<u>\$10,066,702</u>

(4) Loans

The Authority originates, purchases and holds various types of student loans as described in Note 1. 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 in monthly installments of principal and interest over a period of up to thirty years for consolidation loans and up to ten years for other loans. The repayment period begins after a grace period of six or nine months following graduation or loss of qualified student status for the Stafford, Unsubsidized Stafford and HEAL loans. The repayment period for Consolidation, SLS and PLUS loans begins within 60 days from the date the loan is fully disbursed. Interest rates on student loans range from 5% to 10% for the Fiscal Year ended June 30, 1996, depending upon the type and date of origination of the individual loan.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

As stated in Note 1, all student loans are guaranteed as to principal and accrued interest. The Guarantors receive fees for these services which are withheld from the loan disbursements to the borrower and remitted to the Guarantors. In order for the loans to be or remain guaranteed, certain due diligence requirements in loan servicing must be met. As of June 30, 1996 and 1995, respectively, approximately \$690,000 and \$1,200,000 of loans were no longer considered as being guaranteed.

The Authority is also required to withhold certain origination fees from the loan disbursements to the borrowers and remit these fees to USDE. The amount of the origination fees is a certain percentage of the gross loan amount which is set by USDE.

The Authority is also required to pay to USDE certain Lender Fees, the rate of which are set by USDE. The amount of the Lender Fees includes a certain percentage of the gross loan amount on all loans originated after October 1, 1993 and a certain percentage of the carrying value of the Consolidation loans.

Loan origination costs are capitalized when the loan is made and are 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, 1996 and 1995, were approximately \$486,000 and \$346,000, respectively. As of July 1, 1995, the Authority started capitalizing the Lender Fees paid to USDE which increased the carrying value of capitalized loan origination costs by approximately \$100,000 as of June 30, 1996. Amounts paid prior to July 1, 1995 were not material to the Authority's operations and were expensed.

The Authority expanded its operations to include internal loan servicing on all student loans effective July 1, 1994. The Authority's prior servicer for the Stafford loans is contractually obligated to reimburse or perform procedures which restore the guarantee on non-guaranteed Stafford loans pertaining only to due diligence and loan servicing functions through and including June 30, 1994.

Certain student loans of the Authority are pledged as collateral for the various obligations of the Authority. The promissory notes for the pledged student loans are in the custody of the Trustee Bank in their capacity as custodian for the Authority.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

(5) Notes and Bonds Payable

The Authority periodically issues bonds and notes for the purpose of funding student loans. All notes and bonds payable are primarily secured by the student loans receivable, related accrued interest and by the amounts on deposit in the accounts established under the respective bond resolution or financing agreement. The accompanying financial information on pages 16 and 17 summarize the pledged assets and liabilities related to the Authority's debt obligation trust estates as of June 30, 1996 and 1995. The Authority is in compliance with all significant financing agreement requirements and bond covenants.

Notes payable at June 30, 1996 and 1995 consist of the following:

\$15,000,000 Variable Rate Revenue Note, dated August 10, 1987, modified October 10, 1989, payable to Student Loan Marketing Association (SLMA) (1987 SLMA). The interest rate is adjusted weekly based on the 91-day U.S. Treasury bill auction with interest rates of 5.24% and 5.41% as of June 30, 1996 and 1995, respectively. The 1987 SLMA Note was paid in full on September 3, 1996 with the proceeds from the Authority's 1996B-1 Subordinate Bonds.

\$75,000,000 Variable Rate Revenue Note, dated August 28, 1990, payable to SLMA (1990 SLMA). The interest rate is adjusted weekly based on the 91-day U.S. Treasury bill auction with an interest rate of 6.66% as of June 30, 1995. The 1990 SLMA Note was paid in full on August 1, 1995 through an advance made by the Authority on the Liberty note described below.

\$50,000,000 Taxable Variable Rate Revenue Note, dated April 29, 1993, as modified, payable to Liberty Bank and Trust Company of Oklahoma City, National Association (Liberty) which is the lead bank for a bank group. Through June 28, 1995, the interest rate was adjusted weekly based on the 91-day U.S. Treasury bill auction. After June 28, 1995, the interest rate is adjusted monthly based on the London InterBank Offered Rate (LIBOR). The interest rates were 6.25% and 6.81% as of June 30, 1996 and 1995, respectively. The principal is due at maturity of April 29, 1998. Advances and payments can be made under the provisions of the note agreement, provided that the amount outstanding does not exceed the note amount.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

\$21,600,000 Senior Notes, Series 1995A-1 (1995A-1) dated November 9, 1995. The interest rate is based on a 35-day auction period with a rate of 3.9% as of June 30, 1996. The principal is due at maturity of September 1, 2025.

\$7,000,000 Senior Notes, Series 1995A-2 (1995A-2) dated November 9, 1995. The interest rate is based on a one year auction period with a rate of 3.9% as of June 30, 1996. The principal is due at maturity of September 1, 2025.

The following table summarizes the balances due on the notes payable as of June 30, 1996 and 1995:

	<u>1996</u>	<u>1995</u>
1987 SLMA Note	\$ 5,975,000	\$ 5,975,000
1990 SLMA Note	0	19,261,075
Liberty Note	24,300,000	8,100,000
1995A-1	21,600,000	0
1995A-2	<u>7,000,000</u>	<u>0</u>
	<u>\$58,875,000</u>	<u>\$33,336,075</u>

Pursuant to financing agreements and loan sale agreements, SLMA purchased certain SLS, PLUS and HEAL loans when they reached 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 \$8,000 and \$40,000 for the fiscal years ended June 30, 1996 and 1995. The total amount of loans sold to SLMA was approximately \$3,300,000 for the year ended June 30, 1995. The Authority did not have any loan sales to SLMA for the year ended June 30, 1996.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

Bonds payable as of June 30, 1996 and 1995 consist of the following:

	<u>1996</u>	<u>1995</u>
Oklahoma Student Loan Authority:		
4.65%-6.70% Series 1992A		
due serially through 9-1-05	\$28,680,000	\$30,680,000
5.35%-5.55% Series 1992B		
due serially through 9-1-98	8,990,000	8,990,000
Variable rate Series		
1994A-1, due 9-1-20	25,200,000	25,200,000
Variable rate Series		
1994A-2, due 9-1-15	7,000,000	7,000,000
5.8% Series 1995B-1 Subordinate		
due 9-1-08	2,000,000	0
6.35% Series 1995B-2 Subordinate		
due 9-1-25	<u>3,980,000</u>	<u>0</u>
	<u>\$75,850,000</u>	<u>\$71,870,000</u>

The variable interest rates on the 1994A Bonds are based on periodic auctions of these bonds. The Series 1994A-1 Bonds are based on a 35 day auction period with a rate of 3.695% and 4.18% as of June 30, 1996 and 1995, respectively. The Series 1994A-2 Bonds are based on a one year auction period with a rate of 3.84% and 4.15% as of June 30, 1996 and 1995, respectively.

Fiscal year debt service requirements to maturity or redemption date, assuming interest rates on variable rate debt remains at June 30, 1996 levels, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1997	\$ 36,505,000	\$ 5,308,000	\$ 41,813,000
1998	5,735,000	3,420,000	9,155,000
1999	4,865,000	3,142,000	8,007,000
2000	4,160,000	2,886,000	7,046,000
2001	3,665,000	2,670,000	6,335,000
2002-2025	<u>79,795,000</u>	<u>47,819,000</u>	<u>127,614,000</u>
	<u>\$134,725,000</u>	<u>\$ 65,245,000</u>	<u>\$199,970,000</u>

The following schedules reflect a summary of the Authority's financial information categorized by the various outstanding debt obligations. The category of "General Funds" represents unencumbered assets that are not pledged as collateral to any of the outstanding debt obligations.

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements - Continued
June 30, 1996

	SLMA Notes Payable	1992 Series A&B Bonds Payable	Liberty Bank Notes Payable	1994A Bonds Payable	1995A&B Notes and Bonds Payable	General Funds	TOTAL
Assets							
Cash and investments	\$ 1,690,215	\$ 10,631,442	\$ 412,987	\$ 4,532,824	\$ 5,198,089	\$ 15,915,880	\$ 38,381,437
Loans, net of allowance (a)	4,755,614	28,615,151	26,685,330	32,712,991	28,570,824	6,700,126	128,040,036
Other assets (b)	228,039	1,542,692	596,533	1,534,686	1,541,568	(1,872,939)	3,570,579
Total Assets	\$ 6,673,868	\$ 40,789,285	\$ 27,694,850	\$ 38,780,501	\$ 35,310,481	\$ 20,743,067	\$ 169,992,052
Liabilities and Retained Earnings							
Accounts payable and other accrued expenses (b)	45,935	569,009	2,441,161	563,145	153,771	(3,429,656)	343,365
Accrued interest payable	76,976	750,578	387,197	335,468	221,676	9,577	1,781,472
Notes and bonds payable	5,975,000	37,670,000	24,300,000	32,200,000	34,580,000	0	134,725,000
Total Liabilities	6,097,911	38,989,587	27,128,358	33,098,613	34,955,447	(3,420,079)	136,849,837
Retained earnings, beginning of year	947,143	1,407,525	434,921	5,042,965	0	22,433,041	30,265,595
Equity transfers	(474,835)	0	0	0	(7,400)	(4,82,235)	0
Adjusted retained earnings, beginning of year	472,308	1,407,525	434,921	5,042,965	(7,400)	22,915,276	30,265,595
Current operations:							
Interest and other revenue	719,123	3,304,473	2,414,842	2,672,984	1,731,401	1,428,647	12,271,470
Less: Interest expense	(424,767)	(2,268,402)	(2,029,559)	(1,359,668)	(1,011,848)	0	(7,094,244)
Less: Operating expenses	(190,707)	(643,898)	(253,712)	(674,393)	(357,119)	(180,777)	(2,300,606)
Net Income	103,649	392,173	131,571	638,923	362,434	1,247,870	2,876,620
Retained earnings, end of year	575,957	1,799,698	566,492	5,681,888	355,034	24,163,146	33,142,215
Total Liabilities and Retained Earnings	\$ 6,673,868	\$ 40,789,285	\$ 27,694,850	\$ 38,780,501	\$ 35,310,481	\$ 20,743,067	\$ 169,992,052

(a) Loans, net of allowance in the General Funds, include 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, 1996.

(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, 1995

	SLMA Notes Payable	1992 Series A&B Bonds Payable	Liberty Bank Notes Payable	1994A Bonds Payable	General Funds	TOTAL
Assets						
Cash and investments	\$ 1,575,614 \$	4,906,865 \$	1,033,287 \$	2,550,936 \$	12,048,002 \$	22,114,704
Loans, net of allowance (a)	24,518,417	35,178,796	7,453,006	33,287,324	10,603,259	111,040,802
Other assets (b)	1,481,366	2,271,339	150,238	2,229,585	(1,814,503)	4,318,025
Total Assets	\$ 27,575,397 \$	42,357,000 \$	8,636,531 \$	38,067,845 \$	20,836,758 \$	137,473,531
Liabilities and Retained Earnings						
Accounts payable and other accrued expenses (b)	966,738	495,563	98,315	437,521	(1,605,860)	392,277
Accrued interest payable	425,441	783,912	3,295	387,359	9,577	1,609,584
Notes and bonds payable	25,236,075	39,670,000	8,100,000	32,200,000	0	105,206,075
Total Liabilities	26,628,254	40,949,475	8,201,610	33,024,880	(1,596,283)	107,207,936
Retained earnings, beginning of year	1,118,226	1,241,257	38,808	0	26,021,901	28,420,192
Equity transfers	(303,211)	(85,407)	280,542	4,719,174	(4,611,098)	0
Adjusted retained earnings, beginning of year	815,015	1,155,850	319,350	4,719,174	21,410,803	28,420,192
Current operations:						
Interest and other revenue	2,483,926	3,284,090	1,721,332	1,417,887	1,416,154	10,323,389
Less: Interest expense	(1,766,740)	(2,367,235)	(1,233,695)	(815,403)	0	(6,183,073)
Less: Operating expenses	(585,058)	(665,180)	(372,066)	(278,693)	(393,916)	(2,294,913)
Net income	132,128	251,675	115,571	323,791	1,022,238	1,845,403
Retained earnings, end of year	947,143	1,407,525	434,921	5,042,965	22,433,041	30,265,595
Total Liabilities and Retained Earnings	\$ 27,575,397 \$	42,357,000 \$	8,636,531 \$	38,067,845 \$	20,836,758 \$	137,473,531

(a) Loans, net of allowance in the General Funds, include 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, 1995.

(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

(6) Retirement Plan

The Authority participates in the Teacher's Retirement System of Oklahoma (TRS), a contributory defined benefit plan. TRS is a multiemployer cost sharing plan provided by the State of Oklahoma. Beginning on July 1, 1995, the Authority instituted a program to pay all of the retirement contributions (approximately 6% of up to \$44,000 of compensation) for all qualified employees. Prior to July 1, 1995, participation in TRS was optional for the employees and the participating employees were responsible for paying the contributions on their first \$25,000 of compensation, with the Authority contributing 8% of the amount between \$25,000 and \$40,000. A summary of the Authority's participation in TRS for 1996 and 1995 is as follows:

	<u>1996</u>	<u>1995</u>
Total Authority payroll	\$975,912	\$972,661
Payroll for TRS participants	940,454	607,900
Total employee contributions on first \$25,000 of payroll at 6%	0	20,800
Employer contribution	50,547	8,900
Total statutory surcharge contribution at 2.5% in 1996 and 2% in 1995	21,104	9,100

Employees are eligible for retirement benefits when age and years of creditable Oklahoma service reach a certain level. Benefits fully vest upon reaching 10 years of credited Oklahoma service.

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. 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 of TRS, as a whole, determined as part of the latest actuarial valuation dated June 30, 1995 is as follows:

Total pension benefit obligation	\$ 6,893,690,381
Net assets available for benefits, at cost	(2,693,237,571)
Unfunded pension benefit obligation	\$ <u>4,200,452,810</u>

Historical trend information showing TRS's progress in accumulating sufficient assets to pay benefits when due is presented in the June 30, 1995 annual financial report. The annual financial report for June 30, 1996 is not yet available.

(7) 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.

(8) Student Loan Legislation

Federal legislation enacted in 1993 provided for numerous material changes to the FFEL Program. This legislation provided for a variety of changes which have affected the loan interest yield to holders of FFEL Program loans, including the Authority. This legislation could also affect significantly the future operations of the Authority with the implementation of the Federal Direct Loan Program (FDLP). Beginning on July 1, 1994, FDLP allowed eligible institutions of higher education the option of originating Federal Direct Loans on behalf of the federal government. FDLP is an alternative to and in competition with the FFEL Program which the Authority participates in as an eligible lender. FDLP has a five year phase-in period which allows a certain percentage of the federally insured loans to be originated by FDLP. The percentage of loans to be originated by FDLP started at 5% for the 1994-95 academic year and is scheduled to increase to 60% by the fifth year of the program.

(9) Subsequent Events

On August 27, 1996 the Authority placed its Subordinate Bonds, Series 1996B-1 in the amount of \$5,975,000 and Series 1996B-2 in the amount of \$6,230,000. Series 1996B-1 has an interest rate of 4.80% with a maturity of August 1,

OKLAHOMA STUDENT LOAN AUTHORITY

Notes to Financial Statements, Continued

2004 and Series 1996B-2 has an interest rate of 5.10% with a maturity of August 1, 2008. This bond issuance was authorized by a resolution adopted by the Trustees of the Authority on August 5, 1996. Proceeds of the Series 1996B-1 were used to current refund the 1987 SLMA Variable Rate Revenue Note. Proceeds of the Series 1996B-2 were used to current refund the September 1, 1996 maturity (in the principal amount of \$6,230,000) of the Authority's Series 1992A Bonds.

The Authority is anticipating an issuance of approximately \$32,600,000 of bonds in the fall of 1996.

APPENDIX D

OKLAHOMA STUDENT LOAN AUTHORITY VARIABLE RATE DEMAND OBLIGATIONS, SERIES 1997A

CASH FLOW ASSUMPTIONS

The information below is *not* information that is required to be reported for purposes of continuing disclosure of financial and operating data pursuant to Rule 15c2-12. See "CONTINUING DISCLOSURE OF INFORMATION" in the main body of the Official Statement.

Set forth below are certain assumptions used in preparation of the cash flow projections for the Series 1997A Bonds. See also, the captions "SECURITY AND SOURCES OF PAYMENT — Cash Flow Projections" and "INVESTMENT CONSIDERATIONS — Factors Affecting Cash Flow Sufficiency" in the main body of the Official Statement.

There can be no assurance that interest and principal payments from the Financed Eligible Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, or that Interest Benefit or Special Allowance Payments will be received in the amounts and at the times anticipated. Furthermore, future events over which the Authority has no control may adversely affect the Authority's actual receipt of Revenues and Recoveries of Principal pursuant to the Bond Resolution.

Financed Eligible Loan Assumptions

For cash flow projection purposes, based on its experience in administering the Program, the Authority has analyzed the Eligible Loans financed with the proceeds of the Series 1996A Bonds and expected to be financed with the proceeds of the Series 1997A Bonds.

Certain assumptions utilized in the cash flow projections represent averages, and at any given point in time such assumptions will not match the actual portfolio of Financed Eligible Loans. The Authority does not covenant or guarantee that these assumptions will be correct.

See "Appendix F — SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein for a description of various terms and provisions relating to the guaranteed education loans that comprise the Eligible Loans expected to be held under the Bond Resolution following the application of the proceeds of the Series 1997A Bonds.

A. *Duration.* The Eligible Loans expected to be held in the Trust Estate following the application of the proceeds of the Series 1997A Bonds are assumed to have an average status duration as follows:

<u>Loan Status</u>	<u>Time</u>
In-School Status Loans	30 months
Grace Status Loans	6 months
Repayment - Stafford	100 months
Repayment - Consolidation	180 months
Deferment & Forbearance	12 months

In-school loans are assumed to enter repayment based upon the student's expected graduation date.

B. *Premium.* It is assumed that loans acquired will be acquired with a one percent (1%) premium paid, but without any loan transfer fee paid.

C. *Borrower Incentive Loan Discount.* It is anticipated that approximately fifty percent (50%) of Eligible Loans (except Consolidation loans) financed with the Series 1996A Bond proceeds and one hundred percent (100%) of Eligible Loans (except Consolidation loans) financed with the proceeds of the Series 1997A Bonds will be eligible for the Authority's TOP™ program ("TOP"). TOP is the identifying trademark name of the Authority's behavioral incentive loan program for borrowers that are timely on payments and qualify for a subsequent interest rate discount of 1.50 percent on their education loans held by the Authority. In order to be eligible for TOP, (i) an education loan must have been, with certain exceptions, first disbursed on or after July 1, 1996 and (ii) an eligible borrower must make their first twelve (12) consecutive timely payments of principal and interest. Once achieved, the TOP loan discount is permanent.

Recycling is available for moneys received until June 1, 2002 with respect to Eligible Loans acquired with proceeds of the Series 1996A Bonds and the Series 1997A Bonds, unless these Recycling periods are reduced or extended by the Credit Facility Provider. It is assumed that 100% of all Eligible Loans (except Consolidation loans) financed with Recycling proceeds will be eligible for TOP.

D. *Interest Rate Assumptions.* The 91-day U.S. Treasury Bill index rate is assumed to be 5.30%. The interest rates on the Series 1996A Bonds and Series 1997A Bonds are assumed to be equal to 75% of the 91-day U.S. Treasury Bill rate. Consolidation loans are assumed to have a weighted average return of 9.00% per annum with an annualized rebate of 1.05% paid monthly. Stafford variable rate loans are assumed to yield (interest plus Special Allowance Payments) the 91-day U.S. Treasury Bill index rate plus 3.10%, except Stafford variable rate loans financed with the proceeds of the Series 1997A Bonds which are assumed to yield (interest plus Special Allowance Payments) the 91-day U.S. Treasury Bill index rate plus 2.50%, during the In-School, Grace or Deferment periods.

E. *Payment Lags.* A lag of sixty (60) days is assumed on all federal Interest Benefit Payments and Special Allowance Payments.

Loan Portfolio Data

A. *Existing Portfolio.* The Authority has fully expended the proceeds of the Series 1996A Bonds which were designated to acquire loans. As of April 1, 1997, \$30,846,144 in principal balance of such loans was outstanding with the following characteristics:

Unsubsidized Stafford	\$ 8,459,333
Subsidized Stafford	17,810,267
Consolidation	<u>4,576,545</u>
	<u>\$30,846,144</u>

B. *Acquisition Portfolio.* With the proceeds of the Series 1997A Bonds, the Authority expects to acquire Eligible Loans in the Trust Estate with an estimated par value of \$31,792,277 (net of a one percent (1%) premium).

The Eligible Loans are assumed to be acquired in the Trust Estate according to the following schedule:

<u>Date</u>	<u>Par Value</u>	<u>Comment</u>
June 1, 1997	\$ 4,554,455	Consolidation Loans
October 1, 1997	4,950,495	Stafford
January 1, 1998	8,658,416	Stafford
April 1, 1998	<u>13,608,911</u>	Stafford
Total	<u>\$31,772,277</u>	

The Authority estimates that approximately one-third of the Stafford loans to be acquired with proceeds of the Series 1997A Bonds will consist of Unsubsidized Stafford loans. The amounts and percentages set forth below are the Authority's assumptions of the expected characteristics of the Eligible Loans to be held in the Trust Estate upon the full expenditure of the proceeds of the Series 1997A Bonds.

A. *Loan Status.* The Eligible Loans initially financed with the Series 1997A Bond proceeds are assumed to have approximately the same status as the existing portfolio as shown below:

<u>Loan Status</u>	<u>Percent of Series 1996A and Series 1997A Trust Estate</u>
In-School	60.8%
Grace	11.2
Forbearance	8.4
Repayment	<u>19.6</u>
Total	<u>100.0%</u>

B. *Repayment Loans Delinquency.* The Financed Eligible Loans that are in Repayment status are assumed to have approximately the following delinquency rates:

<u>Delinquency</u>	<u>Percent of Repayment Loans</u>
30 - 59 days	6.50%
60 - 89 days	4.50
90 - 119 days	3.00
120 - 149 days	1.50
150 - 179 days	<u>1.30</u>
Total	<u>16.80%</u>

C. *Loan Type.* The Eligible Loans financed with the Series 1997A Bond proceeds are assumed to have approximately the same loan type composition as the Existing Portfolio as shown below:

<u>Loan Type</u>	<u>Per Cent of Series 1996A and Series 1997A Trust Estate</u>	<u>Average Account Size</u>	<u>Interest Rate</u>
Federal Stafford			
Subsidized	57.73%		
Unsubsidized	<u>27.42</u>		
Total Stafford	84.30%	\$4,186	8.25%*
Federal Consolidation	<u>14.83</u>	\$12,402	9.00%
Total	<u>100.00%</u>		

*Maximum rate to Borrower of variable rate loans.

D. *School Type.* The Eligible Loans to be financed with the Series 1997A Bond proceeds are assumed to have approximately the same school type of attendance by the borrowers as the Existing Portfolio shown below:

<u>School Type</u>	<u>Percent of Series 1996A and Series 1997A Bonds Trust Estate*</u>
University - 4 Year	59.26%
College - 2 Year	7.81
Vocational/Proprietary	18.05
Consolidation Loans	<u>14.88</u>
Total	<u>100.0%</u>

*Federal Consolidation Loans are not reported by school type.

E. *Guarantee Eligibility.* The Eligible Loans to be financed with the Series 1997A Bond proceeds are assumed to be eligible for a 98% guarantee of principal payable on a default claim.

Fees and Expenses

A. *Program Expenses.* It is assumed that the annual Program Expenses (other than Servicing Fees) relating to the Eligible Loans expected to be held under the Bond Resolution following the application of the proceeds of the Series 1996A and Series 1997A Bonds will include, among other things: (i) Trustee fees equal to 0.01% per annum of the aggregate principal amount of Series 1996A and Series 1997A Bonds Outstanding in each year; (ii) fees of the Remarketing Agent equal to 0.125% per annum of the principal amount of the Series 1996A and Series 1997A Bonds Outstanding during each year; and (iii) fees of the Tender Agent equal to \$300 per annum. In addition, the Administrative Fee to the Authority is assumed to be 0.50% per annum of the aggregate principal amount of Financed Eligible Loans, payable monthly.

B. *Servicing Fees.* All of the Eligible Loans are expected to be serviced by the Authority. Servicing Fees are assumed to include fees with respect to the servicing by the Authority per month per loan account. Such fees are assumed to be charged to

the Trust Estate as follows: (i) \$1.85 per account per month for loans in In-School status; (ii) \$3.10 per account per month for loans in Grace status; (iii) \$3.45 per account per month for loans in Current Repayment, Deferment and Forbearance status; (iv) \$4.25 per account per month for loans in Delinquent Repayment status; and (v) \$3.45 per account per month for loans in Claim-in-Process status. It is assumed that the per account per month costs are inflated at a rate of 3% annually beginning June 1, 1998.

C. *Credit and Liquidity Facility Fees.* The cash flows assume such fees equal to 0.31% of the principal amount of the Series 1996A and Series 1997A Bonds Outstanding payable quarterly in advance.

Payment of Guaranty Claims

A one-time charge of \$31 for filing a claim has been assumed for cash flow projection purposes.

Based on its experience, the Authority expects that defaults will occur and, for purposes of the cash flow projections, has assumed an overall default rate of 15%, occurring as follows: (i) a default rate of 10.5% for the first year Eligible Loans enter repayment; (ii) a default rate of 3.0% for the second year of repayment; (iii) a default rate of 1.5% for the third year of repayment; and (iv) a default rate of 0% for each year thereafter.

Defaults on Eligible Loans are assumed to be reimbursed at a rate of 98% (for loans first disbursed on or after October 1, 1993), from the State Guarantee Agency or other Guarantee Agency. All loans are assumed to be disbursed after October 1, 1993.

It is assumed that Guarantee Agency obligations as to any defaulted Financed Eligible Loans will be honored within 270 days of the initial delinquency, assuming proper loan servicing and proper presentation and processing of the claims. This assumption contemplates that if a guarantor failed to honor the claim, the Secretary would honor the claim within that time period in accordance with the provisions of the Higher Education Amendments of 1992.

Investment Rates

Balances in the Debt Service Reserve Account for the Series 1996A and Series 1997A Bonds are assumed to be invested at a rate equivalent to the bond yield. All other funds in the Trust Estate are assumed to be invested at the same rate.

The foregoing assumptions relate specifically to the Eligible Loans expected to be acquired with the proceeds of the Series 1997A Bonds. It cannot be assumed that such assumptions will apply to portfolios of Eligible Loans financed or acquired in the future by the Authority with the Revenues and Recoveries Principal on Financed Eligible Loans.

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APPENDIX E

OKLAHOMA STUDENT LOAN AUTHORITY VARIABLE RATE DEMAND OBLIGATIONS, SERIES 1997A

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, the Underwriter, their respective counsel or Bond Counsel, and is not to be construed as a representation by any of those persons. None of the Authority, the Underwriter, their respective counsel or Bond Counsel 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.

Numerous eligible lenders, including the Authority, make education loans guaranteed by the State Guarantee Agency. The Guarantee Fund administered by the State Regents 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.

THE STATE GUARANTEE AGENCY DESCRIPTIVE, STATISTICAL AND FINANCIAL INFORMATION

General

The State Regents, acting as the "State Guarantee Agency" and administering and utilizing the Guarantee Fund, operate the Oklahoma Guaranteed Student Loan Program ("OGSLP"). The State Guarantee Agency has been in operation in Oklahoma since November 1965. As of March 31, 1997, loans made by various eligible lenders to applicants who attend approved universities, colleges, vocational education or trade schools and guaranteed by the State Guarantee Agency were outstanding in the total principal amount of approximately \$1,553,646,753.

Pursuant to various Agreements to Endorse Loans by and between the State Regents and participating eligible lenders, each eligible lender, under certain conditions, is entitled to payment of 100% of its claim amount (with certain exceptions, 98% of the claim amount for loans first disbursed on or after October 1, 1993) by the State Guarantee Agency.

Guarantee claims paid by the State Guarantee Agency are reimbursed from 78% to 100% of the amount paid, subject to certain conditions, pursuant to an Agreement for Federal Reinsurance of Loans (the "*Federal Reinsurance Agreement*") dated October 20, 1977, as amended, and a Supplemental Guarantee Agreement for Federal Reinsurance of Loans (the "*Supplemental Guarantee Agreement*") dated May 4, 1984, as amended, both between the Secretary and the State Regents and pertaining to the Secretary's reimbursement for amounts expended by the State Guarantee Agency in discharge of its guarantee obligations. The Supplemental Guarantee Agreement is subject to annual renegotiation and to termination for cause by the Secretary.

The Oklahoma State Regents For Higher Education

The State 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 State 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 State Regents is nine years. The terms are overlapping. State Regents serve until their successors are appointed and qualified.

The State 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 State Regents. The present Chancellor is Dr. Hans Brisch. Gary Smith is the Executive Vice-Chancellor and Chief Operating Officer of the State Regents responsible for the administration of OGSLP.

State Guarantee Agency Administration

The State Guarantee Agency operations are performed by OGSLP as a function within the State Regents. The State Guarantee Agency employs approximately 130 full time equivalent employees under the direction of Mr. Smith. Mr. Smith is assisted in this capacity by Alice Strong Simmons as Director of the State Guarantee Agency. Dr. Glendon Forgey, C.P.A. serves as the Associate Director.

The offices of the State Guarantee Agency are located at 999 N.W. Grand Boulevard, Suite 300, Oklahoma City, Oklahoma 73118; Telephone (405) 858-4300.

Service Area

There are approximately 78 schools in Oklahoma actively participating in the State Guarantee Agency program.

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 42 eligible lenders actively participating in the State Guarantee Agency program.

Electronic Data Processing Support

The State Guarantee Agency uses an integrated software system and data processing facilities for administering education loans that is provided by United Student Aid Funds, Inc. pursuant to an agreement between the State Regents and United Student Aid Funds, Inc. dated September 7, 1989, as amended and extended. This software system is operated from terminals controlled by the State Guarantee Agency and connected to the United Student Aid Funds, Inc.'s system. The system 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 made under the Higher Education Act, the State Guarantee Agency presently charges a one percent (1%) fee on the principal amount of the loan disbursed by the eligible lender to the borrower. 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, 1996, net guarantee fee income received (cash basis) by the State Guarantee Agency was approximately \$2,328,800 compared to net guarantee fee income (less reinsurance premiums paid) of approximately \$2,284,600 in the Fiscal Year ended June 30, 1995 and \$4,328,000 in the previous Fiscal Year ended June 30, 1994.

Annual Guaranteed Loan Volume

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 9/30/96	Federal Fiscal Year Ended 9/30/95	Federal Fiscal Year Ended 9/30/94	Federal Fiscal Year Ended 9/30/93	Federal Fiscal Year Ended 9/30/92
Principal Amount Guaranteed	\$382,247,232	\$435,169,812	\$292,586,201	\$195,637,218	\$163,392,191
Stafford (Sub.)	47.3%	39.5%	56.3%	74.1%	75.5%
Unsubsidized					
Stafford	24.8	19.3	15.6	6.0	0.0
PLUS	3.3	2.5	3.7	6.3	10.3
SLS	0.0	0.0	5.9	13.6	14.2
Consolidation	<u>24.6</u>	<u>38.7</u>	<u>18.5</u>	<u>0.0</u>	<u>0.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Principal Amount Guaranteed	\$288,396,740*	\$266,603,146*	\$238,322,207*	\$195,637,218	\$163,392,191
School Type					
4 Year Univ	74.3%	77.3%	73.6%	74.9%	69.7%
2 Year College	14.5	14.7	14.8	13.0	11.5
Proprietary	<u>11.2</u>	<u>8.0</u>	<u>11.6</u>	<u>12.1</u>	<u>18.8</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

* The State Guarantee Agency's system does not track Consolidation Loan approvals by institution type.

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 9/30/96	Federal Fiscal Year Ended 9/30/95	Federal Fiscal Year Ended 9/30/94	Federal Fiscal Year Ended 9/30/93	Federal Fiscal Year Ended 9/30/92
Principal Amount Guaranteed	\$1,532,386,802	\$1,291,974,305	\$985,661,492	\$782,703,799	\$674,298,367
Loan Status					
Interim	34.5%	34.4%	36.6%	34.9%	32.4%
Deferred	2.9	3.3	4.9	7.3	6.6
Repayment	<u>62.6</u>	<u>62.3</u>	<u>58.5</u>	<u>57.8</u>	<u>61.0</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>
Institution Type					
4 Year University	84.3%	83.3%	80.8%	78.9%	75.7%
2 Year College	9.9	9.9	10.6	10.4	10.0
Proprietary	<u>5.8</u>	<u>6.8</u>	<u>8.6</u>	<u>10.7</u>	<u>14.3</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

Trigger Rate

Reimbursements by the USDE to the State Guarantee Agency are subject to a sliding scale based on the trigger rate, as follows:

<u>Federal Fiscal Year Default 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%

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>
1996	\$38,704,273	\$828,498,066	4.67%
1995	29,071,030	596,599,934	4.87
1994	28,952,615	476,558,459	6.07
1993	27,277,618	432,019,693	6.31
1992	25,839,426	385,726,429	6.70

The guarantor, such as the State Guarantee Agency, is responsible as a co-insurer in each federal fiscal year for the difference between the claim amount paid to eligible lenders and the Secretary's reimbursement under the trigger rate formula.

Federal Administrative Cost Allowances Advances

The USDE paid guarantors one percent (1%) of loan volume for the federal fiscal year ended September 30, 1995 as an administrative cost allowance.

Pursuant to the Budget for the federal fiscal year ended September 30, 1996, USDE paid administrative cost allowances to guarantee agencies, quarterly, calculated on the basis of 0.85% of the total principal amount of loans which were guaranteed or insured on or after October 1, 1995 by such guarantee agencies.

Guarantee Fund Reserve Balance

On an accrual basis of accounting, based on the balance sheet items of allowance for default claims, deferred guarantee fees and restricted fund balance, at Fiscal Year end June 30, 1996 and 1995 and the outstanding loan principal guaranteed at those dates, the reserve ratio for the State Guarantee Agency at Fiscal Year end June 30, 1996 and 1995 was approximately 1.5% and 1.7%, respectively. 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 was required to maintain a Reserve Ratio of 0.9% for the Fiscal Year ended June 30, 1996, with the requirement increasing to 1.10% for the Fiscal Year ending June 30, 1997.

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 investment income, guarantee fees, federal reimbursements and other monies will continue to be deposited in the Guarantee Fund in amounts consistent with past experience.

Default Rates and Collections

DEFAULT RATES REGARDING THE STATE GUARANTEE AGENCY

	Federal Fiscal Year Ended 9/30/96	Federal Fiscal Year Ended 9/30/95	Federal Fiscal Year Ended 9/30/94	Federal Fiscal Year Ended 9/30/93	Federal Fiscal Year Ended 9/30/92
Gross Default Rate (OGSLP)	20.8%	20.3%	20.5%	19.9%	19.2%
National Average	15.8	15.1%	15.2%	17.7%	17.7%
Net Default Rate (OGSLP) after collections	12.3	12.4%	12.9%	13.4%	13.6%
National Average	9.0	9.0%	11.5%	11.5%	12.1%

The Student Loan Reform Act of 1993 reduced guarantee agencies' retention rate on collection recoveries from 30% to 27%. In addition, pursuant to the Secretary's interpretation of the Higher Education Act, the retention rate paid by the Secretary on defaulted loans that are paid by the making of a Federal Consolidation Loan is 18.5%.

Pending State Legislation and Litigation

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

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

Status of Federal "Reserves"

Proposals have been made that a guarantee agency, after paying a claim by the 60th day after submission, could not file with USDE for reinsurance until 180 days after the claim was submitted. During this period, the guarantee agency would have to pay down or use its reserve funds, up to one-half of its reserve fund balance. The State Guarantee Agency is unable to predict the outcome of such legislation or its impact, if enacted, on the State Guarantee Agency.

The USDE routinely conducts site program reviews or audits of guarantee agencies, such as OGSLP, for compliance with various aspects of the Higher Education Act. OGSLP underwent such a site program review in August 1996.

Consolidation of Guarantee Agencies

USDE has advocated the merger or consolidation of 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 have reported mergers or other reorganizations or 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. The State Guarantee Agency is not able to predict the outcome of such consolidation activities or the effect thereof on the State Guarantee Agency.

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 transition from the FFEL Program to the new FDSLPL could 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.

Effects of the Administration's Proposed Budget on OGSLP

Lower Default Reinsurance Rates from 98 Percent to 96 Percent. This proposal would result in a loss of revenue for OGSLP of approximately \$1.1 million over the next five years.

Eliminate Supplemental Preclaims Assistance Payments. This proposal would result in a loss of revenue for OGSLP of approximately \$5 million over the next five years.

Reduce the Default Collection Amount Guaranty Agencies may Retain from 27 Percent to 18.5 Percent. OGSLP does not anticipate any effects from this proposal.

OGSLP does not anticipate the above proposals being approved by Congress. Many other proposals have been developed and investigated by industry and legislative participants as possible alternatives to the Administration's proposals. OGSLP is not able to predict the likelihood of enactment or impact of any such proposals.

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APPENDIX F

OKLAHOMA STUDENT LOAN AUTHORITY VARIABLE RATE DEMAND OBLIGATIONS, SERIES 1997A

SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

The summary set forth below regarding the guaranteed Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive. The summary is qualified in its entirety by reference to the Higher Education Act and the regulations promulgated thereunder. Certain of the information summarized herein may or may not be applicable to the Authority's FFEL Program.

INTRODUCTION

Title IV, Part B of the Higher Education Act provides for the FFEL Program (formerly known as the Guaranteed Student Loan Program) to help pay for the costs of post-secondary education by providing loans for students, or their parents, from eligible lenders through: (i) the guarantee of payment of education loans by a state agency or private nonprofit corporation, which guarantors are reinsured by the federal government; and (ii) direct federal insurance of education loans. Such guaranteed or insured education loans are one type of federal student financial assistance.

The Higher Education Act also provides for federal: (i) Interest Benefit Payments as a subsidy to the borrower that is paid to eligible lenders with respect to certain eligible loans; and (ii) Special Allowance Payments representing an additional subsidy paid by the Secretary to the holders of eligible loans depending on interest rate conditions and other factors.

This summary of certain provisions of the FFEL Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

HISTORY

Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized several times, including:

- The Omnibus Budget Reconciliation Act of 1990 (the "1990 Reconciliation Act") which included revisions to the budget process, new restrictions on the eligibility of educational institutions in the FFEL Program and the Credit Reform Act of 1990 which budgets costs of the FFEL Program loans reinsured during a federal fiscal year (excluding administrative costs and certain incidental costs) into the budget regardless of how far into the future the costs will be incurred;
- The Higher Education Amendments of 1992 (the "1992 Reauthorization") which took effect on July 23, 1992, and reauthorized the FFEL Program through October 1, 1998 and made a number of revisions thereto;
- The Student Loan Reform Act of 1993 (the "1993 Amendments") which revised a number of provisions of the FFEL Program and enacted the Federal Direct Loan Program and the Higher Education Technical Amendments Act of 1993 (the "1993 Technical Amendments") which made further changes to the Higher Education Act.

The next reauthorization of the Higher Education Act is anticipated in 1998. Various federal government, public and private entities are discussing and proposing changes to the Higher Education Act, some of which may be significant changes in the FFEL Program, during the reauthorization process.

There can be no assurance that the Higher Education Act or other relevant law or regulations will not be changed in a manner that will adversely impact the programs described herein. In particular, the proposals and other measures described under the caption "Legislative and Administrative Matters" herein, or future measures to reduce the federal budget deficit, may adversely affect these programs.

FEDERAL STUDENT AID

FAFSA

Application for federal student financial assistance is made with a Free Application for Federal Student Aid ("FAFSA"). The FAFSA is processed by a federal government contractor. The information in the FAFSA is used with a standard federal formula to calculate the Expected Family Contribution ("EFC"), or amount that a family (including the student) is expected to contribute from their income and assets toward the cost of education.

Needs Analysis

The financial aid office of an eligible educational institution deducts the EFC from the cost of attendance ("COA") at that institution to make a financial needs analysis for determining eligibility for some form of student financial assistance, including education loans.

The eligible educational institution has to certify, among other things, the student's eligibility, loan amounts, enrollment and loan disbursement schedule.

Eligibility Requirements for Educational Institutions

Eligible Institutions include higher educational institutions, public and private, and vocational schools that sign a Program Participation Agreement with the Secretary and comply with certain federal regulations, accreditation and licensing requirements and guarantor policies.

The 1990 Reconciliation Act made major changes in the provisions granting eligibility to educational institutions to participate in the FFEL Program. 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 1992 Reauthorization lowered the cohort default rate trigger for disqualifying schools to 25%.

FFEL Program Loan Types

Several types of education loans are currently authorized as FFEL Program loans. These loan types include the following loans.

- **Subsidized Stafford** - Subsidized Federal Stafford Loans are loans to eligible students who meet certain financial needs tests and for which the federal government pays the borrower's loan interest during periods of enrollment (at least half time attendance), for a grace period afterward (usually six months) and for certain periods of deferment.

- **Unsubsidized Stafford** - Unsubsidized Stafford Loans for Middle Income Borrowers were created by the 1992 Reauthorization. These are loans available to eligible students who do not meet the Subsidized Stafford needs tests or need additional loan amounts in excess of their Subsidized Stafford loan eligibility. The interest on this type of loan accrues as the responsibility of the borrower. Otherwise, the provisions of an Unsubsidized Stafford loan are the same as for a Subsidized Stafford Loan.

- **PLUS** - Federal Parent Loans to Undergraduate Students are available to an eligible parent or legal guardian of a dependent eligible student. This loan type allows parents who do not have an adverse credit history to borrow the unmet financial need for each dependent student. The interest on this type of loan also accrues as the responsibility of the borrower.

- **Consolidation** - Federal Consolidation Loans are originated to fund payment of certain of the borrower's prior education loan obligations, combining various obligations into one new promissory note. Consolidation loans can provide a longer repayment period and a reduced monthly payment than the borrower's prior obligations.

- **SLS** - Prior to July 1, 1994, the Higher Education Act also provided for Federal Supplemental Loans for Students. Commencing July 1, 1994, the SLS program was 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.

GENERAL FFEL PROGRAM LENDING REQUIREMENTS

Qualified Student Borrower

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 educational 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) meets the guarantor's requirements; (iv) meets the applicable "needs" requirements; (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; and (vi) is not in default on any federal education loan. Each loan is to be evidenced by an unsecured promissory note.

Disbursement Requirements

The Higher Education Act requires that all Stafford Loans and PLUS be disbursed by eligible lenders in at least two separate installments. These disbursements are sent directly to the eligible educational institution for delivery of funds to the student. Except for PLUS, 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 (30) days after the enrollment period begins.

A three percent (3%) origination fee which is credited to the federal government is deducted by the eligible lender from each gross loan amount before disbursement to the borrower. In addition, a guarantee or insurance fee not-to-exceed one percent (1%) of the loan amount is deducted from each disbursement and remitted to the guarantor or insurer of the education loan. The lender is required to pay to USDE a one-half percent (0.5%) lender loan fee that can not be charged to the borrower.

Stafford or PLUS loan disbursements may be subject to cancellation or refund on behalf of a student in certain circumstances, for instance if the student fails to register or withdraws.

Interest Benefit Payments

Interest Benefit Payments are interest payments paid during certain periods by the Secretary with respect to Stafford Loans and qualifying Consolidation loans which meet certain requirements. Interest Benefit Payments are 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; and (iii) during certain deferment periods.

The Secretary makes Interest Benefit 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. Receipt of Interest Benefit 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 Benefit Payments have not been paid within thirty (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 holders of qualifying FFEL Program 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. Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be between 3.10% and 3.50% above the average of bond equivalent rates of 91-day U.S. Treasury bills auctioned for that quarter.

For loans made on or after October 1, 1992, the Special Allowance Payments are calculated based on the average bond equivalent rate of the 91-day U.S. Treasury bill plus 3.10%, 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 U.S. Treasury bill average bond equivalent rate plus 2.50% while the borrower is in in-school, grace or deferment status.

If the indicated Special Allowance Payment rate is below the maximum loan interest rate, or "cap", for a given quarter, no Special Allowance is paid to the holder of the loan.

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 9.50% on such Loans. Loans acquired with the proceeds of tax-exempt obligations originally issued after September 30, 1993, are not assured of a minimum Special Allowance Payment, but the formula is the same as for loans acquired with taxable proceeds (i.e., the full, rather than half, Special Allowance Payment rate is paid by the Secretary).

Receipt of Special Allowance Payments 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 thirty (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.

STAFFORD LOAN PROGRAM

Loan Limits

In connection with eligible Subsidized and Unsubsidized Stafford Loans there are limits on the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. Both limitations exclude loans made under the SLS and PLUS Programs. The annual Stafford loan limits are depicted in the Table below for a full academic year.

Annual Stafford <u>Limits</u>	ENROLLMENT STATUS		
	<u>First Year Undergraduate</u>	<u>Second Year Undergraduate</u>	<u>3rd, 4th or 5th Year Undergraduate</u>
Base Stafford eligibility (Subsidized & Unsubsidized)*	\$2,625	\$3,500	\$ 5,500
Additional Unsubsidized Stafford eligibility**	\$4,000	\$4,000	\$ 5,500
Total Annual Limit**	\$6,625	\$7,500	\$11,000

Note: The above annual limits are subject to proration if the student's program or final enrollment period is less than a full academic year and apply to loans the first disbursement of which was after July 1, 1993.

* The limit available to *dependent* undergraduate students, unless the parent is unable to obtain a PLUS loan.

** Amounts available to *independent* undergraduate students who may borrow for their unmet financial need up to the total of the base plus the additional amount.

A student enrolled in a graduate or professional program is eligible for a maximum Subsidized Stafford amount of \$8,500 for an academic year and a total annual limit of \$18,500.

Aggregate unpaid principal amount limits for guarantee are depicted in the Table below.

	<u>Maximum Subsidized Stafford Amount</u>	<u>Total Limit</u>
Dependent Undergraduate	\$23,000	\$23,000
Dependent Undergraduate with PLUS exception	\$23,000	\$46,000
Independent Undergraduate	\$23,000	\$46,000
Graduate or Professional Student	\$65,500	\$138,500

The Secretary has raised these loan limits to accommodate students undertaking specialized training requiring exceptionally high costs of education.

Stafford Interest Rates

Under the 1992 Reauthorization, 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 U.S. Treasury bill rate plus 3.1%, not to exceed 9%. The 1993 Amendments changed the interest rates on Stafford Loans made to new borrowers on or after July 1, 1994 to the 91-day U.S. Treasury bill rate, not to exceed 8.25%. The interest rates on loans made on or after July 1, 1995 during periods of government paid interest, e.g. during school, any grace period and deferment is the 91-day U.S. T-bill plus 2.5%, not to exceed 8.25%.

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 were required to 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 FFEL Program after October 1, 1993, the 91-day Treasury bill rate plus 3.1% before January 1, 1995. The converted loans will not thereafter be subject to the rebate requirements.

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 FFEL Program 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.

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%.

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 payments of \$50 per month 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

Repayment of principal of an insured student loan must generally commence following a period of not more than six months after the student borrower ceases to pursue at least a half-time course of study.

Deferment

During certain other periods and subject to certain conditions, no principal repayments need be made, including periods: (i) when the borrower has returned to an eligible educational institution to pursue further studies; (ii) when the borrower is unemployed; (iii) when the borrower is on active duty status in the military or in volunteer service such as the Peace Corps, a tax-exempt organization or ACTION programs; (iv) when the borrower is temporarily totally disabled; (v) during which the borrower is on parental leave; or (vi) for economic hardship circumstances.

Forbearance

The Lender may also allow periods of forbearance during which the borrower may defer principal payments because of temporary financial hardship or reduced payments from what was scheduled previously. The 1992 Reauthorization simplified the deferment categories for new loans and expanded the opportunities for students to obtain forbearance from lenders due to temporary financial hardship.

PLUS AND SLS LOANS

Loan Limits

As previously noted, SLS was discontinued July 1, 1994 and that lending was merged into the Unsubsidized Stafford Loan Program.

PLUS are limited, generally, to the cost of attendance minus other financial aid for which the student is eligible. Under the 1992 Reauthorization, 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 minus estimated financial assistance.

Interest Rates

The applicable interest rate on PLUS depends upon the date of disbursement issuance of the loan and the period of enrollment for which the loan is to apply. 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. The rate each year is the bond equivalent rate of 52-week U.S. Treasury bills auctioned at the final auction held prior to the June 1 preceding the applicable 12-month period, plus

3.25% or 3.10%, as applicable, with a maximum rate as shown in the Table below. Special Allowance Payments are available on variable rate PLUS and SLS Loans only if the rate determined by the formula above exceeds the maximum rate.

MAXIMUM LOAN RATES

<u>Disbursement Date(s)</u>	<u>PLUS</u>	<u>SLS</u>
On or after July 1, 1994	9%	N/A
On or after October 1, 1992 through June 30, 1994	10%	11%
On or after July 1, 1987 through September 30, 1992	12%	12%

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%.

Repayment

Repayment of principal of PLUS and SLS Loans is required to commence no later than 60 days after the date of the final 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 Benefit 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.

CONSOLIDATION LOANS

Under the Consolidation Loan program, an eligible borrower means a borrower with an outstanding indebtedness on certain education loans, not only FFEL, who is in repayment status or in a grace period preceding repayment, or is a defaulted borrower under certain conditions. A lender may 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 or she has been unable to obtain a Consolidation Loan from the holders of the outstanding loans of the borrower.

Consolidation Loans consolidated on or after July 1, 1995, bear an interest rate equal to the weighted average of the interest rates on the loans consolidated, rounded up to the nearest whole percent. Consolidation Loans consolidated prior to July 1, 1994 bear an interest rate not less than nine percent per annum.

Upon origination, the Consolidation lender is required to pay a 0.5% lender loan fee to USDE. Consolidation Loan holders are also be required to pay monthly a 1.05% annualized fee to the Secretary on the principal plus accrued but unpaid interest of all Consolidation Loans made on or after October 1, 1993.

The repayment schedules for Consolidation Loans will not exceed:

<u>Consolidation Loan Amount</u>	<u>Maximum Repayment Period</u>
Less than \$7,500	10 years
\$7,500 up to \$10,000	12 years
\$10,000 up to \$20,000	15 years
\$20,000 up to \$40,000	20 years
\$40,000 up to \$60,000	25 years
\$60,000 or more	30 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 no longer makes Interest Benefit 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. The Bankruptcy Code provides in part that bankruptcy discharge does not discharge an individual debtor from any debt for an education loan made, insured or guaranteed by any program funded in whole or in part by a governmental unit or a nonprofit institution unless: (i) such loan 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 that excepting such debt from discharge will impose an undue hardship on the debtor.

The 1990 Reconciliation Act included language amending the Bankruptcy Code to clarify the nondischargeability of education loans under Chapter 13 bankruptcy filings.

SERVICER PROVISIONS AND THIRD-PARTY SERVICER REGULATIONS

The 1992 Reauthorization 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 FFEL Program 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 guarantee agency's or eligible lender's participation in the FFEL Program.

The Higher Education Act requires lenders making and servicing Eligible Loans, and third party servicing agents servicing such loans for lenders, 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.

The required due diligence procedures include certain loan application procedures, certain loan origination procedures and, when an education loan is delinquent or in default, certain loan collection procedures. Such collection procedures must be no less extensive and forceful than those generally in use among financial institutions with respect to other consumer debt.

Failure to comply with the required due diligence procedures may result in the Secretary's refusal to make reinsurance payments to the guarantee agency on such loans, or in a guarantee agency's refusal to honor its guarantee on such loans, or in the lender being required to repay to the Secretary or a guarantee agency various federal benefits received with respect to an Eligible Loan which was not entitled to receive such amounts.

Guarantee agencies generally deem delinquency and default to mean a borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the 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. When a loan becomes 60 days past due, the holder is permitted to request preclaims assistance from the applicable guarantee 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 guarantee agency. The holder is required to continue collection efforts until the loan is 180 days past due.

GUARANTEE AND REIMBURSEMENT

Reimbursement

The original principal amount of loans guaranteed by a guarantee agency which are in repayment for purposes of computing reimbursement payments to a guarantee agency means the original principal amount of all loans guaranteed by a guarantee agency less: (i) guarantee payments on such loans; (ii) the original principal amount of such loans that have been fully repaid; and (iii) 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 guarantee 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.

Each guarantee 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 guarantee agency may result in the disallowance of federal reimbursement payments with respect to the loans which were the subject of such failures. If a guarantee 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 guarantee agency may take reasonable action including withholding payments or requiring reimbursement of funds. The guarantee agency may also terminate the agreement for cause upon notice and hearing.

Pursuant to most typical agreements for guarantee between a guarantee agency and the originator of the loan, any eligible holder of a loan insured by such a guarantee agency is entitled to reimbursement from such guarantee 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. At the time of payment of insurance benefits, the holder must assign to the applicable guarantee agency all rights accruing to the holder under the note evidencing the loan.

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.

Financial Status of Guarantee Agencies

Included in the 1992 Reauthorization was a provision that requires each Guarantee Agency to maintain a current minimum reserve level of at least 0.9% of the total attributable amount of all outstanding loans guaranteed by the Guarantee Agency for the federal fiscal year beginning 1995, and 1.1% for federal fiscal years beginning in fiscal year 1996 and thereafter.

Annually, the Secretary is to 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 make such a determination or will do so in a timely manner. The 1992 Reauthorization also provided 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.

Trigger Rate and Risk Sharing

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 a guarantee agency is reimbursed by the USDE pursuant to the Federal Reinsurance Agreement and Supplemental Guarantee Agreement. Reimbursements by the USDE are subject to a sliding scale based on the trigger rate, as follows:

<u>Federal Fiscal Year 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%

The guarantee agency is responsible as a co-insurer in each federal fiscal year for the difference between the amount of the claim paid to eligible lenders (100% of loans first disbursed on or prior to September 30, 1993, or, with certain exceptions, 98% of loans first disbursed on or after October 1993) and the Secretary's reimbursement under the trigger rate formula.

Other Provisions

The 1993 Amendments included certain other amendments affecting guarantee agencies. 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 FFEL Program or an orderly transition to complete reliance on the FDLP to do so. These and other amendments could adversely affect the ability of a guarantee agency to remain solvent.

Other amendments included 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% of the loan amount 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 FDLP.

In addition, Administrative Cost Allowance ("ACA") was eliminated; however legislative history suggests that Congress intended that Guarantee Agencies will continue to receive a 1% ACA.

LEGISLATIVE AND ADMINISTRATIVE MATTERS

Program Proposals

Various proposals have been made for the following changes in the FFEL Program: (i) decrease the amount guarantee agencies pay lenders for defaulted loans from 98 percent to 95 percent; (ii) increase the lender fee paid to the federal government on each new loan from 0.5% to 0.8% of the loan amount; (iii) require lenders to pay the Secretary a semi-annual loan holder fee of 0.035% of all new FFEL Program loans; (iv) limit parent borrowing under the PLUS Program to \$15,000 annually; (v) require guarantee agencies to return reserve funds to the federal government; (vi) decrease the reimbursement amount the federal government pays a guarantee agency for defaulted loans from 98%, 88% or 78% to 96%, 86% or 76% (based on the guarantee agency's "trigger" rate); (vii) eliminate the federal payment to guarantee agencies for supplemental preclaims assistance; and (viii) decrease from 27% to 18.5% the amount that guarantee agencies may retain from the amounts collected for defaulted Consolidated loans.

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 FFEL Program 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 FFEL Program.

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.

A special sequestration rule applicable to the FFEL Program under prior law is maintained in the budget process. 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 U.S. 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 0.5%.

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

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