**TERM SHEET NUMBER 7**

**TERM SHEET RELATING TO THE**
**OFFER TO PURCHASE OR EXCHANGE**
**DATED SEPTEMBER 25, 2008 BY**

# LEON HIGHER EDUCATION AUTHORITY, INC.

**("We", "Us" and "Our")**

**Offer to Purchase for Cash or Exchange**
**Any and All of the Outstanding Existing Senior Notes and Existing Subordinate Notes of the Classes Listed Below**
**and**
**Solicitation of Consents to Proposed Amendments to the Related Indenture**

**$6,800,000 Student Loan Revenue Bonds, Senior Series 1999A-1 (CUSIP Number: 106238EY0)**
**$1,300,000 Student Loan Revenue Bonds, Senior Series 1999A-1 (CUSIP Number: 106238EZ7)**
**$900,000 Student Loan Revenue Bonds, Senior Series 1999A-1 (CUSIP Number: 106238FA1)**
**$35,000,000 Student Loan Revenue Bonds, Senior Series 1999A-1 (CUSIP Number: 106238FB9)**
**$35,600,000 Student Loan Revenue Bonds, Taxable Senior Series 1999A-3 (CUSIP Number: 106238FG8)**
**$78,200,000 Student Loan Revenue Bonds, Taxable Senior Series 1999A-4 (CUSIP Number: 106238FH6)**
**$78,200,000 Student Loan Revenue Bonds, Taxable Senior Series 1999A-5 (CUSIP Number: 106238FJ2)**
**$78,300,000 Student Loan Revenue Bonds, Taxable Senior Series 1999A-6 (CUSIP Number: 106238FK9)**
**$56,900,000 Student Loan Revenue Bonds, Taxable Senior Series 2006A-3 (CUSIP Number: 106238LZ9)**
**$56,900,000 Student Loan Revenue Bonds, Taxable Senior Series 2006A-4 (CUSIP Number: 106238MA3)**
**$95,800,000 Student Loan Revenue Bonds, Taxable Senior Series 2006A-5 (CUSIP Number: 106238MB1)**
**$47,900,000 Student Loan Revenue Bonds, Taxable Senior Series 2006A-6 (CUSIP Number: 106238MC9)**
(the "Existing Senior Notes")

and

**$30,700,000 Student Loan Revenue Bonds, Taxable Subordinate Series 2006B-1 (CUSIP Number: 106238MD7)**
(the "Existing Subordinate Notes" and,
together with the Existing Senior Notes, the "Existing Notes," as further described in Annex 7 hereto)

of

# BRAZOS HIGHER EDUCATION AUTHORITY, INC.

(the "Existing Note Issuer")

The outstanding principal amount of each series of Existing Notes set forth above is as of August 31, 2008. The outstanding principal amounts may be less than stated above at any time thereafter due to redemptions and principal payments pursuant to the Existing Indenture (as defined below).

Subject to the terms and conditions described in the Offer Documents (as defined herein), we are offering:

- For each $1,000 principal amount of Existing Senior Notes tendered prior to the Consent Date (as defined herein), $920 in cash (the "Senior Notes Total Consideration"), which includes a consent payment of $5.00, and
- For each $1,000 principal amount of Existing Subordinate Notes tendered prior to the Consent Date:
  - $200 in cash, which includes a consent payment of $5.00,
  - $200 principal amount of New Class B Notes (as defined herein), and
  - $350 principal amount of New Class C Notes (as defined herein) (such cash and securities, the "Subordinate Notes Total Consideration"), and
- For all Existing Notes, cash in an amount equal to accrued but unpaid interest (other than carry-over interest) to but excluding the settlement date for the offer made hereby.

For Existing Notes tendered after the Consent Date, we are offering the applicable consideration described above, minus the applicable consent payment.

Immediately following the Expiration Date, holders whose Existing Senior Notes have been accepted for purchase in this Offer may, at their option, elect (the "Citi Note Election") to apply $720 (the "Citi Note Cash Price") of the cash they are otherwise entitled to receive in respect of each $1,000 principal amount of Existing Senior Notes that they hold to purchase

$800 principal amount (the "Citi Note Principal Amount") of senior unsecured notes of Citigroup Inc. (the "Citi Notes"). Instead of receiving $920 cash (plus accrued but unpaid interest) for each $1,000 principal amount of Existing Senior Notes tendered prior to the Consent Date, holders making a Citi Note Election will receive $200 cash and $800 principal amount of Citi Notes (plus accrued but unpaid interest) for each $1,000 of principal amount of the Existing Senior Notes they have tendered. **In order to be eligible to make a Citi Note Election (and purchase Citi Notes) holders must indicate their interest in doing so at the time they tender their Existing Senior Notes.** We and the Outstanding Security Issuers (as defined herein) will not have any obligation under the Citi Notes and we did not prepare and are not responsible for the preliminary prospectus relating to the Citi Notes, which is attached hereto only for your convenience. The Citi Notes are being offered exclusively by Citigroup Inc. pursuant to the preliminary prospectus attached hereto as Exhibit 2. Neither we nor any Outstanding Security Issuer (as defined herein) are offering or soliciting offers for the Citi Notes.

Each series of Existing Notes was issued under the Amended and Restated Indenture of Trust, dated as of June 1, 2006 (as amended or supplemented, the "Existing Indenture"), between the Existing Note Issuer and Wells Fargo Bank, National Association, as trustee and eligible lender trustee (the "Trustee"). Additional terms of the Existing Notes, the Existing Indenture and related arrangements are described in Annex 7 to the attached Offer to Purchase or Exchange. This term sheet and the attached Offer to Purchase or Exchange are an integrated document and must be reviewed by holders as a whole; references to "as defined herein" include the attached Offer to Purchase or Exchange.

**The Offer described herein is not available to holders eligible to participate in the settlement offer described under "Notice Regarding Settlements" in the attached Offer to Purchase or Exchange and certain other holders as described under "Offering Restrictions" in the attached Offer to Purchase or Exchange.**

**The Offer to Purchase (as defined herein) will expire at 8:00 a.m., New York City time, on November 6, 2008, unless extended (such date and time, as the same may be extended, the "Expiration Date"). The Consent Solicitation (as defined herein) will expire at 5:00 p.m., New York City time, on October 17, 2008, unless extended (such date and time, as the same may be extended, the "Consent Date"). Existing Notes must be tendered on or prior to the Consent Date for their holders to receive the total consideration described above (including the consent payment).**

**Tendered Existing Senior Notes and tendered Existing Subordinate Notes may be withdrawn and related consents may be revoked at any time on or prior to 5:00 p.m., New York City time, on October 17, 2008, unless extended (such date and time, as the same may be extended, the "Withdrawal Deadline"), but not thereafter.**

The dealer manager (the "Dealer Manager") for the Offer to Purchase and the solicitation agent (the "Solicitation Agent") for the Consent Solicitation is:

# Citi

September 25, 2008

# OFFER TO PURCHASE OR EXCHANGE

**Offer to Purchase for Cash or Exchange Any and All Outstanding**
**Existing Senior Notes and Existing Subordinate Notes**
**and**
**Solicitation of Consents to Proposed Amendments to the Related Existing Indenture**

**CERTAIN TERMS USED IN THIS OFFER TO PURCHASE OR EXCHANGE ARE DEFINED IN THE ACCOMPANYING TERM SHEET**

We are offering to purchase (the "Offer to Purchase") any and all of the Existing Senior Notes and the Existing Subordinate Notes (each as identified in the covering term sheet) for the consideration described in the covering term sheet, upon the terms and subject to the conditions set forth in this Offer to Purchase or Exchange (as supplemented, including by the covering term sheet, this "Statement" and, as respectively supplemented by the various term sheets, collectively, the "Statements") and in the accompanying Letter of Transmittal and Consent (the "Letter of Transmittal" and, together with this Statement, the "Offer Documents"). In conjunction with the Offer to Purchase, we are soliciting (the "Consent Solicitation" and, together with the Offer to Purchase, this "Offer") consents (the "Consents") to certain proposed amendments (the "Proposed Amendments") to the Existing Indenture (as identified in the covering term sheet) under which the Existing Senior Notes and the Existing Subordinate Notes were issued. The principal purposes of this Offer are (1) to acquire and retire all outstanding Existing Notes and (2) to amend the Existing Indenture to facilitate defeasance of the Existing Indenture.

This Offer is made with respect to securities issued under a single indenture (identified as the Existing Indenture in the covering term sheet) by a single issuer (identified as the Existing Note Issuer in the covering term sheet). The Brazos Higher Education Service Corporation, Inc. (the "Master Servicer") has entered into separate contracts under which it manages the business affairs of various non-profit corporations (the "Outstanding Security Issuers") including the Existing Note Issuer, that have previously issued student loan-backed securities. The Master Servicer also manages our business affairs, pursuant to a master servicing contract. Concurrently with this Offer, we are making similar offers in respect of auction rate securities (or, in a small number of cases, certain other securities) issued under twelve other indentures by various Outstanding Security Issuers.

We refer to this Offer together with our twelve other similar offers as the "Concurrent Offers," and to the outstanding senior and subordinate securities that are the subject of the Concurrent Offers (including the Existing Notes) as the "Outstanding Senior Securities" and the "Outstanding Subordinate Securities," respectively, and as the "Outstanding Securities" when taken together. We refer to the Existing Indenture and the relevant indentures for the Concurrent Offers as the "Outstanding Indentures." Each Outstanding Indenture is secured by a security interest in a specified pool of student loans and we refer to this pool for any Outstanding Indenture as the "Underlying Assets." The Outstanding Indentures and related Outstanding Securities and Underlying Assets, as well as certain related arrangements, are described in the attached annexes labeled Annex 1 through Annex 13. As of August 31, 2008, the Outstanding Securities had a combined outstanding aggregate principal amount of $5,952,100,000.

At or before 12:00 noon, New York City time, on October 20, 2008 (as such date and time may be extended, with respect to the initial Resecuritization Process (as defined below), the "Initial Offer Selection Date" and as established for any subsequent Resecuritization Process, a "Subsequent Offer Selection Date" and each an "Offer Selection Date") we will select and announce the Concurrent Offers that we will attempt to fund in the initial Resecuritization Process (as defined below). We will make this decision by sequentially selecting Concurrent Offers, according to the priority ordering (the "Offer Priority") set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation," for which the Minimum Tender Condition (as defined below) has been satisfied, excluding any Concurrent Offer that would cause the total principal amount and accrued interest of Underlying Assets (as set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Offer Priority") securing the Outstanding Securities of the selected Concurrent Offers to exceed the Reference Size (as defined below) and subject to additional requirements described herein.

A "Resecuritization Process," with respect to the Concurrent Offers we select on an Offer Selection Date, is the process of (a) offering and selling for cash new senior notes (the "New Class A Notes") issued by us under a new indenture (the "Indenture") secured by the Eligible Underlying Assets (as defined below) that previously secured the Outstanding Securities that are the subject of these Concurrent Offers, (b) issuing new subordinate notes (the "New Class B Notes") and new junior subordinate notes (the "New Class C Notes" and, together with the New Class A Notes and the New Class B Notes, the "New Notes") under the Indenture, which New Class B Notes and New Class C Notes will be secured on a subordinate basis by the same collateral as the New Class A Notes, in

exchange for tendered Outstanding Subordinate Securities that are the subject of these Concurrent Offers and (c) otherwise monetizing or exchanging the Ineligible Underlying Assets (as defined below) that previously secured the Outstanding Securities that are the subject of the selected Concurrent Offers.

The "Minimum Tender Condition" in respect of each Concurrent Offer is that (a) at least 95% of the outstanding aggregate principal amount of Existing Senior Notes (as defined in respect of that Concurrent Offer) are tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline (as defined in respect of that Concurrent Offer) and (b) at least 99% of the outstanding aggregate principal amount of Existing Subordinate Notes (as defined in respect of that Concurrent Offer) are tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline (as defined in respect of that Concurrent Offer).

The "Reference Size" for the initial Resecuritization Process will be $2.02 billion.

Promptly following an Offer Selection Date, we will extend the Expiration Dates, Withdrawal Deadlines and Consent Dates for the Concurrent Offers that were not selected on or prior to that date as described herein. Subject to the conditions described herein, if we are able to complete a Resecuritization Process and the Concurrent Offers to be funded thereby, we will conduct a new selection process and proceed with a new, additional Resecuritization Process in respect of the remaining Concurrent Offers. We will, subject to the conditions described herein, repeat this process until all of the Concurrent Offers have been completed.

We will not be obligated to proceed with a Resecuritization Process if we are advised by the Dealer Manager that, in its reasonable judgment based on prevailing market conditions, it is not reasonably likely that the related Underlying Assets could be securitized, monetized or exchanged in a manner that would provide the Requisite Proceeds (as defined in "Summary—Funding of this Offer") for the relevant Concurrent Offers (the "Marketing Condition"). In addition, we will not be obligated to accept Existing Notes for purchase under this Offer unless we successfully obtain the Requisite Proceeds through the Resecuritization Process (the "Financing Condition").

If a Resecuritization Process results in Excess Proceeds (as defined under "Summary—Excess Proceeds"), we will apply those proceeds to increase the consideration offered to holders of the Outstanding Securities that are the subject of the Concurrent Offers to which the Resecuritization Process relates (as described under "Summary—Excess Proceeds").

Immediately following the Expiration Date, holders whose Existing Senior Notes have been accepted for purchase in this Offer may, at their option, make a Citi Note Election to apply a portion of the cash they are entitled to receive, in an amount equal to the Citi Note Cash Price specified in the covering term sheet, to purchase an aggregate principal amount of Citi Notes (senior unsecured notes of Citigroup Inc.) equal to the Citi Note Principal Amount specified in the covering term sheet, so that they would receive Citi Notes in lieu of a portion of the cash otherwise deliverable to them at settlement. **In order to be eligible to make a Citi Note Election (and thereby purchase Citi Notes) holders must indicate their nonbinding interest in doing so at the time they tender their Existing Senior Notes.**

Holders making a Citi Note Election will receive cash consideration at settlement plus a principal amount of Citi Notes that will be equal to the principal amount of the Existing Senior Notes they have tendered (plus accrued interest). The interest rate borne by the Citi Notes will be set at a level expected to cause them to trade (to the extent to which any trading occurs) at a significant discount to par and initially at a market price that approximates the cash paid for such Citi Notes and therefore the Citi Note Election, when compared to taking all cash consideration, is not intended to increase the total value offered to participating holders of Existing Senior Notes. Holders that make a Citi Note Election and hold the resulting Citi Notes to maturity will, however, ultimately receive cash consideration at settlement and a payment of principal at the maturity of the Citi Notes that together are equal to the principal amount of the Existing Senior Notes they have tendered plus accrued interest (assuming the Citi Notes perform in accordance with their terms). Citigroup Inc. will announce the final terms of the Citi Notes on the second business day prior to the Expiration Date (such date and time, as the same may be extended, the "Citi Notes Terms Announcement Date").

We and the Outstanding Security Issuers will not have any obligation under the Citi Notes and we did not prepare and are not responsible for the preliminary prospectus relating to the Citi Notes, which has been provided by Citigroup Inc. and is attached to this Statement solely for your convenience. The Citi Notes are being offered exclusively by Citigroup Inc. pursuant to the preliminary prospectus attached hereto as Exhibit 2. The Citi Notes preliminary prospectus is not part of this Statement and is not incorporated by reference into this Statement. The information regarding the Citi Notes in this Statement was provided by Citigroup Inc. and we and the Outstanding

Security Issuers have no responsibility for such information. Neither we nor any Outstanding Security Issuer are offering or soliciting offers for the Citi Notes.

Pursuant to the Consent Solicitation, we will pay each holder that validly consents to the Proposed Amendments on or prior to the Consent Date an amount in cash equal to $5.00 for each $1,000 principal amount of Existing Notes held by the holder (the "Consent Payment") that are accepted in this Offer. The Consent Payment is included in the Total Consideration described in this Statement.

We may extend the Withdrawal Deadline, Consent Date or Expiration Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other and as a result different dates for those events may apply to the Existing Senior Notes and the Existing Subordinate Notes.

We will pay the Dealer Manager for the Offer to Purchase a commission of $2.50 for each $1,000 principal amount of Outstanding Securities accepted in the Concurrent Offers and an underwriting fee of $2.50 for each $1,000 principal amount of New Class A Notes issued in the related Resecuritization Process. These amounts, together with expenses of the Concurrent Offers being simultaneously settled and the related Resecuritization Process will be deducted from proceeds of the related New Notes offering.

Participating in this Offer involves risks. See "Risk Factors" beginning on page 21.

The Dealer Manager for the Offer to Purchase and the Solicitation Agent for the Consent Solicitation is:

**Citi**

September 25, 2008

## SUMMARY TIME SCHEDULE FOR THIS OFFER

The following summarizes the anticipated time schedule for this Offer assuming, among other things, that the Expiration Date is not extended. This summary is qualified in its entirety by, and should be read together with, the more detailed information appearing elsewhere in this Statement. The various dates and times in this summary are based on current information and intentions and are subject to change. It should also be noted that we may extend the Withdrawal Deadline, Consent Date or Expiration Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other and as a result different dates for those events may apply to the Existing Senior Notes and the Existing Subordinate Notes.

| Date | Calendar Date | Event |
|---|---|---|
| Consent Date ..... | 5:00 p.m., New York City time, on October 17, 2008, unless extended by us. | The deadline for holders to tender Existing Notes and deliver Consents in order to qualify for payment of the Total Consideration, which includes the Consent Payment. |
| Withdrawal Deadline..... | 5:00 p.m., New York City time, on October 17, 2008, unless extended by us. | The deadline for holders to validly withdraw tenders of Existing Notes and related Consents. |
| Initial Offer Selection Date ..... | At or before 12:00 noon, New York City time, on October 20, 2008, unless extended by us. | The time at which we will announce which Concurrent Offers we will initially attempt to fund in the initial Resecuritization Process. |
| Citi Notes Terms Announcement Date..... | On the second business day prior to the Expiration Date (November 4, 2008, unless extended by us). | The time at which the interest rate and maturity date of the Citi Notes will be announced by Citigroup Inc. |
| Expiration Date ..... | 8:00 a.m., New York City time, on November 6, 2008, unless extended by us. | The deadline for holders to tender Existing Notes pursuant to this Offer. |
| Excess Proceeds Announcement (if applicable)..... | Before 9:00 a.m., New York City time, on the business day immediately following the Expiration Date (November 7, 2008, unless extended by us). | If the Resecuritization Process for the Concurrent Offers initially selected results in Excess Proceeds, we will announce that at this time and extend the Expiration Date in respect of untendered Outstanding Subordinate Notes (and, if applicable, Outstanding Senior Notes) under those Concurrent Offers by no less than 10 business days. |

| | | |
|---|---|---|
| Citi Note Election Period..... | A period of three business days commencing the day after the Expiration Date (November 7, 2008 through and including November 11, 2008, unless amended by us). | The period during which Citi Note Elections may be made by holders of Existing Senior Notes that are accepted in this Offer, at their option. Only holders that indicated their nonbinding interest in making a Citi Note Election at the time they tendered their Existing Senior Notes are eligible to make such an election. |
| Settlement Date ..... | Promptly following acceptance (the "Settlement Date"). Due to the complexities inherent in releasing the liens of the Outstanding Indentures and establishing the lien of the Indenture, together with other operational complexities of this Offer, the settlement cycle may be as long as five business days. | Payment for all Existing Notes tendered as of the scheduled Expiration Date and accepted and payment of related Consent Payments. |
| Subsequent Settlement Date (if applicable)..... | | If we increase the consideration offered to holders of the Existing Subordinate Notes (and, if applicable, Existing Senior Notes) as a result of obtaining Excess Proceeds, we will extend the Expiration Date applicable to the untendered Existing Subordinate Notes (and, if applicable, Existing Senior Notes) by no less than 10 business days but will not delay settlement in respect of tenders of Existing Notes received prior to the date of such extension (so that any additional Existing Subordinate Notes (and, if applicable, Existing Senior Notes) received during the extension period will be separately settled). |
| Subsequent Offer Selection Date..... | Not later than the fifth business day following the Settlement Date related to the preceding Resecuritization Process. | The time at which we announce which Concurrent Offers we will attempt to fund following completion of a given Resecuritization Process. |

## IMPORTANT INFORMATION

Any holder that tenders Existing Notes pursuant to this Offer must also deliver a Consent to the Proposed Amendments. Holders may not deliver Consents without tendering Existing Notes. Holders that validly tender their Existing Notes pursuant to the Offer to Purchase will be deemed to have delivered their Consents by such tender. A holder may not revoke a Consent without withdrawing the previously tendered Existing Notes to which such Consent relates. Tenders of Existing Notes may be validly withdrawn at any time on or prior to the applicable Withdrawal Deadline, but, subject to limited exceptions, not thereafter. A valid withdrawal of tendered Existing Notes will constitute the concurrent revocation of such holder's related Consent. We reserve the right to (i) waive any and all conditions to the Offer to Purchase or the Consent Solicitation (except that the receipt of the Requisite Consents (as defined under "Proposed Amendments to the Existing Indenture") is required by the Existing Indenture for approval of the Proposed Amendments and may not be waived if the Proposed Amendments are to be effective), (ii) extend or terminate the Offer to Purchase or the Consent Solicitation at any time or (iii) otherwise amend the Offer to Purchase or the Consent Solicitation in any respect.

In the event that this Offer is terminated or otherwise not completed, Existing Notes tendered pursuant to this Offer will be promptly returned to the tendering holders and no payment will become payable. If we extend the Expiration Date for this Offer, we will retain any Outstanding Securities that were tendered pending completion or termination of this Offer, provided that we will extend the Withdrawal Deadlines, Consent Dates and Expiration Dates for the Concurrent Offers that are not selected at the Initial Offer Selection Date.

We have retained Citigroup Global Markets Inc. to act as dealer manager for the Offer to Purchase (the "Dealer Manager") and as solicitation agent for the Consent Solicitation (the "Solicitation Agent"). We have appointed Global Bondholders Services Corporation as depositary (the "Depositary") and as information agent (the "Information Agent") with respect to this Offer.

**Neither we nor the Existing Note Issuer, the Depositary, the Information Agent or the Dealer Manager nor any of our or their affiliates makes any recommendation as to whether or not holders should tender Existing Notes in response to this Offer or deliver Consents to the Proposed Amendments in response to the Consent Solicitation.**

References to "holders" herein are to registered holders or their authorized agents.

Beneficial owners whose Existing Notes are held by a broker, dealer, commercial bank, trust company or other nominee must contact such broker, dealer, commercial bank, trust company or other nominee if they desire to tender Existing Notes and deliver Consents with respect to such Existing Notes. See "Procedures for Tendering Existing Notes and Delivering Consents."

The Depository Trust Company, New York, New York ("DTC") has authorized participants that hold Existing Notes on behalf of beneficial owners of Existing Notes through DTC to tender their Existing Notes and consent to the Proposed Amendments as if they were holders. To effect a tender and consent, DTC participants should transmit their acceptance to DTC through the DTC Automated Tender Offer Program ("ATOP"), for which the transaction will be eligible, and follow the procedure for book-entry transfer set forth in "Procedures for Tendering Existing Notes and Delivering Consents." See "Procedures for Tendering Existing Notes and Delivering Consents."

There are no guaranteed delivery provisions provided for in conjunction with this Offer under the terms of this Statement or any of the other Offer Documents. Holders must tender their Existing Notes in accordance with the procedures set forth under "Procedures for Tendering Existing Notes and Delivering Consents."

The Trustee under the Existing Indenture, as identified in the covering term sheet, has not participated in the preparation of, and assumes no responsibility for, this Statement, and it has not reviewed or undertaken to verify any information contained herein.

Requests for additional copies of this Statement or the other Offer Documents and requests for assistance relating to the procedure for tendering Existing Notes or delivering Consents to the Proposed Amendments may be directed to

the Information Agent at the address and telephone number on the back cover page of this Statement. Requests for assistance relating to the terms and conditions of the Offer to Purchase and the Consent Solicitation may be directed to the Dealer Manager at the address and telephone number on the back cover page of this Statement. Beneficial owners may also contact their broker, dealer, commercial bank, trust company or other nominee for assistance regarding the Offer to Purchase and the Consent Solicitation.

**This Statement and the Letter of Transmittal contain important information which should be read before any decision is made with respect to the Offer to Purchase and the Consent Solicitation.**

**This Statement constitutes neither an offer to purchase or exchange Existing Notes nor a solicitation of Consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable securities or blue sky laws. The delivery of this Statement shall not under any circumstances create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the information set forth herein or in any attachments hereto or in our or the Existing Note Issuer's affairs or the affairs of any of our or its affiliates since the date hereof.**

**No dealer, salesperson or other person has been authorized to give any information or to make any representation not contained in this Statement and, if given or made, such information or representation may not be relied upon as having been authorized by us, the Depositary, the Information Agent or the Dealer Manager.**

**A preliminary prospectus that describes Citigroup Inc. and certain terms of the Citi Notes that may be purchased through a Citi Note Election by holders whose Existing Senior Notes have been accepted for purchase in this Offer is attached to this Statement as Exhibit 2. Citigroup Inc. is not affiliated with us, is not making this Offer, will not have any obligation under the New Notes and did not prepare and is not responsible for this Statement. We and the Outstanding Security Issuers will not have any obligation under the Citi Notes and we did not prepare and are not responsible for the preliminary prospectus relating to the Citi Notes, which has been provided by Citigroup Inc. and is attached to this Statement solely for your convenience. The Citi Notes preliminary prospectus is not part of this Statement and is not incorporated by reference into this Statement. The information regarding the Citi Notes in this Statement was provided by Citigroup Inc. and we and the Outstanding Security Issuers have no responsibility for such information.**

**A registration statement relating to the Citi Notes has been filed by Citigroup Inc. under the Securities Act of 1933, as amended, and has become effective. Any offer to buy the Citi Notes may be withdrawn or revoked, without obligation or commitment of any kind, at any time prior to notice of its acceptance.**

## NOTICE REGARDING SETTLEMENTS

On August 7, 2008, Citi announced that it had reached an agreement in principle with each of the New York Attorney General, the Securities and Exchange Commission, and other state regulatory agencies regarding settlements in respect of certain auction rate securities. Pursuant to the agreements in principle, Citi will make an offer (the "Settlement Offer") pursuant to which it will offer to purchase at par by no later than November 5, 2008, auction rate securities that are not auctioning from holders that are eligible (as described below) to participate in the Settlement Offer under the agreements in principle. Outstanding Securities that are auction rate securities may be covered by the agreements in principle, and if held by an eligible holder as defined in the agreements, will be eligible to be sold to Citi at par pursuant to the Settlement Offer that Citi will make in the near future.

**Holders that are eligible to participate in the Settlement Offer are not eligible to participate in this Offer and are excluded from this Offer. Under the agreements in principle, individuals, charities and small institutions (as defined by the terms of the agreements in principle) that purchased from Citi on or before February 11, 2008, Outstanding Securities that are auction rate securities that are not auctioning will be included in the Settlement Offer, and, as a result, are not eligible to participate in this Offer. These holders will be receiving offer materials for the Settlement Offer from Citi in the near future. Any holder that believes it may be eligible to participate in the Settlement Offer should contact Citi at (866) 720-4802. Citi will advise any holder who calls that number whether or not they are eligible to participate in the Settlement Offer and holders that are eligible to participate in the Settlement Offer will not be eligible to participate in this Offer.**

**Certain other broker-dealers have also announced settlements or buyback offers in respect of auction rate securities sales and investors that bought the Outstanding Securities through broker-dealers other than Citi should contact their broker if they believe an offer in respect of any such settlement or buyback may be available to them.**

## OFFERING RESTRICTIONS

Holders that are eligible to participate in the Settlement Offer described under "Notice Regarding Settlements" are not eligible to participate in this Offer and are excluded from this Offer, whether they hold Existing Senior Notes or Existing Subordinated Notes.

There are no other initial limitations on holders of Existing Senior Notes that may participate in this Offer, provided that this Statement constitutes neither an offer to purchase or exchange Existing Notes nor a solicitation of Consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable securities or blue sky laws.

To facilitate compliance with state securities and blue sky laws, holders of Existing Subordinate Notes must meet the eligibility requirements set forth in Schedule I in order to participate in this Offer.

The Letter of Transmittal for this Offer will contain a representation required of all Existing Subordinate Note holders tendering in this Offer as to their eligibility. If you hold Existing Subordinate Notes but are not eligible to participate in this Offer, please contact the Dealer Manager.

If we become aware of any jurisdiction where the making of the Offer to Purchase or the Consent Solicitation would not be in compliance with applicable laws, we will make a good faith effort to comply with any such laws or may seek to have such laws declared inapplicable to the Offer to Purchase and the Consent Solicitation. If, after such good faith effort, we cannot comply with any such applicable laws, the Offer to Purchase or the Consent Solicitation will not be made to (nor will tenders or Consents be accepted from or on behalf of) the holders of Existing Notes residing in each such jurisdiction.

**TABLE OF CONTENTS**


SUMMARY TIME SCHEDULE FOR THIS OFFER ..... i
IMPORTANT INFORMATION ..... iii
NOTICE REGARDING SETTLEMENTS ..... v
OFFERING RESTRICTIONS ..... v
SUMMARY ..... 1
FORWARD-LOOKING STATEMENTS ..... 20
RISK FACTORS ..... 21
BACKGROUND TO THIS OFFER ..... 25
PRINCIPAL TERMS OF THE OFFER TO PURCHASE AND THE CONSENT SOLICITATION ..... 26
PROPOSED AMENDMENTS TO THE EXISTING INDENTURE ..... 37
WAIVER ..... 39
EXPIRATION; EXTENSION; AMENDMENT; TERMINATION ..... 40
PROCEDURES FOR TENDERING EXISTING NOTES AND DELIVERING CONSENTS ..... 40
ACCEPTANCE OF EXISTING NOTES FOR PURCHASE; PAYMENT FOR EXISTING NOTES; PAYMENT OF CONSENT PAYMENTS ..... 44
WITHDRAWAL OF TENDERS; REVOCATION OF CONSENTS ..... 46
THE NEW NOTES ..... 48
CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES ..... 51
DEALER MANAGER AND SOLICITATION AGENT; DEPOSITARY; INFORMATION AGENT ..... 56
GLOSSARY ..... 59

Annex 1 (Summary of BHEA 1993AC Indenture and related Outstanding Securities and Underlying Assets) ANN 1-1
Annex 2 (Summary of AFC 2005 Indenture and related Outstanding Securities and Underlying Assets) ANN 2-1
Annex 3 (Summary of EFSI 2003 Indenture and related Outstanding Securities and Underlying Assets) ANN 3-1
Annex 4 (Summary of FSFC 2003 Indenture and related Outstanding Securities and Underlying Assets) ANN 4-1
Annex 5 (Summary of BHEA 1993B Indenture and related Outstanding Securities and Underlying Assets) ANN 5-1
Annex 6 (Summary of BSFC 2003-2 Indenture and related Outstanding Securities and Underlying Assets) ANN 6-1
Annex 7 (Summary of BHEA 1999 Indenture and related Outstanding Securities and Underlying Assets) ANN 7-1
Annex 8 (Summary of EDI 2003 Indenture and related Outstanding Securities and Underlying Assets) ANN 8-1
Annex 9 (Summary of BSFC 1995 Indenture and related Outstanding Securities and Underlying Assets) ANN 9-1
Annex 10 (Summary of BHEA 1992C Indenture and related Outstanding Securities and Underlying Assets) ANN 10-1
Annex 11 (Summary of THEA 2004 Indenture and related Outstanding Securities and Underlying Assets) ANN 11-1
Annex 12 (Summary of BSFC 2003-1 Indenture and related Outstanding Securities and Underlying Assets) ANN 12-1
Annex 13 (Summary of BSFC 1998 Indenture and related Outstanding Securities and Underlying Assets) ANN 13-1

EXHIBIT 1 (Preliminary Offering Memorandum relating to the New Notes) EX 1-1
EXHIBIT 2 (Preliminary Prospectus relating to the Citi Notes) EX 2-1

SCHEDULE I (Eligibility Requirements for Holders of Existing Subordinate Notes) SCH I-1

## SUMMARY

*The following summary is qualified in its entirety by reference to, and should be read in conjunction with, the information appearing elsewhere or incorporated by reference in this Statement and the other Offer Documents. Each of the capitalized terms used in this summary and not defined herein has the meaning set forth elsewhere in this Statement.*

| | |
|---|---|
| Background to this Offer ..... | According to articles in the news media, since February 2008, auctions for auction rate securities backed by education loans to students and parents of students made under the Federal Family Education Loan Program ("FFELP") and the Health Education Assistance Loan Program ("HEAL") generally have failed and meaningful trading markets for those securities have generally not been available during that time. In addition to their impact on trading markets, auction failures have resulted in the payment of interest at contractually stipulated rates that may erode parity ratios and, if continued, may result in the impairment of the principal of subordinate securities in these auction rate structures.<br><br>Almost all of the Outstanding Securities are auction rate securities. Each Concurrent Offer (including this Offer) is intended to provide holders of the related Outstanding Securities an opportunity to receive, in exchange for their Outstanding Securities, cash or new securities bearing interest at a rate determined on a basis that does not involve auctions.<br><br>To generate the Requisite Proceeds necessary to complete a given Concurrent Offer, the Underlying Assets securing the related Outstanding Indenture must be successfully resecuritized in a Resecuritization Process. Because completion of the Resecuritization Process requires release of the existing liens on the relevant Underlying Assets, all Outstanding Securities under each Outstanding Indenture in respect of which a Concurrent Offer is completed will be retired. Funds to redeem Outstanding Securities that are not retired through a Concurrent Offer will be limited and as a result a high minimum participation level (the Minimum Tender Condition) has been established for each Concurrent Offer.<br><br>Because insufficient acceptance by holders of either the Outstanding Senior Securities or the Outstanding Subordinate Securities that are the subject of a given Concurrent Offer would result in the inability to complete that Concurrent Offer, the Concurrent Offers have been structured with the intent of appealing to a broad cross-section of holders.<br><br>The Concurrent Offers will not result in payment in full of the face value of any Outstanding Securities. In particular, holders of Outstanding Subordinate Securities will receive consideration the value of which is significantly less than the face value of their Outstanding Subordinate Securities. See "Risk Factors—The value of the consideration offered to holders of Existing Subordinate Notes is significantly below par or face value of the Existing Subordinate Notes." Any successfully completed Concurrent Offers will, however, |

| | |
|---|---|
| | offer holders an alternative to continued ownership of their Outstanding Securities. |
| Purpose of the Offer to Purchase and Consent Solicitation..... | The principal purposes of this Offer are (1) to acquire and retire all outstanding Existing Notes and (2) to amend the Existing Indenture to facilitate defeasance of the Existing Indenture. |
| Redemption of Existing Notes not Tendered..... | If this Offer is consummated, the Existing Note Issuer will concurrently call for redemption all Existing Notes not tendered in this Offer, at a redemption price equal to the principal amount of such Existing Notes, plus accrued but unpaid interest (including carry-over interest, as described under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Redemption of Existing Notes not Tendered," where applicable) to, but not including, the redemption date. The redemption date will be the first date practicable, taking contractual terms of such Existing Notes into account. This Statement does not constitute a call for redemption. |
| Existing Note Issuer..... | The Existing Note Issuer identified in the covering term sheet. |
| Offeror..... | We are Leon Higher Education Authority, Inc., a nonprofit corporation organized in 2005 under the Texas Non-Profit Corporation Act, located at 2600 Washington Avenue, P.O. Box 1308, Waco, Texas 76703, Telephone (254) 753-0915. |
| The Existing Senior Notes..... | As identified in the covering term sheet and further described in the annex hereto identified in the covering term sheet. |
| The Existing Subordinate Notes..... | As identified in the covering term sheet and further described in the annex hereto identified in the covering term sheet. |
| The Offer to Purchase..... | We are offering to purchase any and all of the Existing Senior Notes and the Existing Subordinate Notes for the consideration described below, upon the terms and subject to the conditions set forth in the Offer Documents. |
| Expiration Date..... | This Offer will expire at 8:00 a.m., New York City time, on November 6, 2008, unless extended by us. We may extend the Expiration Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other. |
| The Consent Solicitation ..... | In conjunction with the Offer to Purchase, we are soliciting Consents to Proposed Amendments to the Existing Indenture under which the Existing Senior Notes and the Existing Subordinate Notes were issued. Each holder that validly consents to the Proposed Amendments on or prior to the Consent Date (and does not validly revoke such consent) will be eligible to receive the Consent Payment in cash, subject to the terms and conditions set forth in the Offer Documents. Holders that validly tender Existing Notes pursuant to the Offer to Purchase will be deemed to have delivered Consents to the Proposed Amendments by such tender and holders must tender their Existing Notes in order to deliver their Consent. |

| | |
|---|---|
| Consent Date ..... | The Consent Solicitation will expire at 5:00 p.m., New York City time, on October 17, 2008, unless extended by us. We may extend the Consent Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other. |
| Proposed Amendments ..... | We are seeking the Proposed Amendments in order to modify the terms of the Existing Indenture to facilitate defeasance of the Existing Indenture. For a description of the Proposed Amendments for which Consents are being sought pursuant to the Consent Solicitation, see "Proposed Amendments to the Existing Indenture."<br><br>The adoption of the Proposed Amendments requires the Requisite Consents (as defined under "Proposed Amendments to the Existing Indenture"). If the Requisite Consents are received, but this Offer is not consummated, the Proposed Amendments will retroactively become null and void from the time of their adoption. |
| Waiver ..... | By tendering Existing Notes, holders release and discharge us, the Existing Note Issuer, the Master Servicer, the Trustee and all of our and their respective present or future directors, officers or employees, from any liability or claim existing on the Settlement Date that is based on or related to the Existing Indenture, the Existing Notes, the Proposed Amendments or the Underlying Assets, and waive any related claim. The release, discharge and waiver described in this paragraph are part of the consideration tendered by holders participating in this Offer and are subject to, and effective upon, the acceptance of and payment for the Existing Notes. Insofar as the release, discharge and waiver applies to liabilities arising under federal securities laws, the Securities and Exchange Commission has expressed the view that such waivers and releases may be against public policy, and are, therefore, unenforceable. Neither the Dealer Manager nor any of its affiliates is seeking any release, discharge or waiver in connection with this Offer. |
| Concurrent Offers ..... | This Offer is one of thirteen similar Concurrent Offers that we are making through thirteen different term sheets (each term sheet, together with this Offer to Purchase or Exchange, describing the specific subject matter of one of the Concurrent Offers). Each of the Concurrent Offers is being made in respect of Outstanding Securities issued under a different Outstanding Indenture to which the relevant Outstanding Security Issuer is a party. Obligations under each of the Outstanding Indentures are secured by a security interest in Underlying Assets consisting of specified student loans. The respective Outstanding Indentures and related Outstanding Securities and Underlying Assets, as well as certain related arrangements, are described in the attached annexes labeled Annex 1 through Annex 13. As of August 31, 2008, the Outstanding Securities had a combined outstanding aggregate principal amount of $5,952,100,000.<br><br>The Master Servicer, The Brazos Higher Education Service Corporation, Inc., has entered into separate contracts under which it manages the business affairs of each of the Outstanding Security Issuers, including the Existing Note Issuer. The Master Servicer also manages our business affairs, pursuant to a master servicing contract. |

| | |
|---|---|
| Offer Selection Date ..... | At the Initial Offer Selection Date (at or before 12:00 noon, New York City time, on October 20, 2008 unless extended by us), we will select and announce the Concurrent Offers that we will attempt to fund in the initial Resecuritization Process. We will make this decision by sequentially selecting Concurrent Offers, according to the Offer Priority set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation," for which the Minimum Tender Condition has been satisfied, excluding any Concurrent Offer that would cause the total principal amount and accrued interest of Underlying Assets (as set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Offer Priority") securing the Outstanding Securities of the selected Concurrent Offers to exceed the Reference Size. If, in our reasonable judgment based on prevailing market conditions, inclusion of any given Concurrent Offer in the Concurrent Offers selected would cause the total amount of Ineligible Underlying Assets of any type to exceed the amount that can be included in the Resecuritization Process without causing the Marketing Condition to cease to be satisfied, we may exclude that Concurrent Offer from the selection.<br><br>Promptly following an Offer Selection Date, we will extend the Expiration Dates, Withdrawal Deadlines and Consent Dates for the Concurrent Offers that were not selected on or prior to that date. The extension is expected initially to be to the fifth business day following the Settlement Date for the Concurrent Offers that were selected on the most recent Offer Selection Date. Subject to the conditions described herein, if we are able to complete a Resecuritization Process and the Concurrent Offers to be funded thereby, we will conduct a new selection process and proceed with a new, additional Resecuritization Process in respect of the remaining Concurrent Offers, using the same criteria as for the initial selection. Upon announcement of any such continuation we will amend this Statement to provide updated information regarding the relevant Concurrent Offers and the corresponding New Notes and announce the new Withdrawal Deadlines and Consent Dates (which will be at least 10 business days after such update) and new Expiration Dates (which will be at least 20 business days after such update). We will, subject to the conditions described herein, repeat this process until all of the Concurrent Offers have been completed. |
| Reference Size ..... | The Reference Size for the initial Resecuritization Process will be $2.02 billion. |
| Resecuritization Process ..... | A Resecuritization Process, with respect to the Concurrent Offers we select on an Offer Selection Date, is the process of:<br><br>• offering and selling for cash the New Class A Notes issued by us under the Indenture, secured by the combination of all Eligible Underlying Assets that previously secured the Outstanding Securities that are the subject of these Concurrent Offers,<br><br>• issuing New Class B Notes and New Class C Notes under the Indenture, secured on a subordinate basis by the same collateral as the New Class A Notes, as part of the consideration delivered to tendering holders of the |

Outstanding Subordinate Securities that are the subject of these Concurrent Offers, and

- otherwise monetizing or exchanging the Ineligible Underlying Assets that previously secured the Outstanding Securities that are the subject of these Concurrent Offers.

"Eligible Underlying Assets" means education loans (including any accrued and unpaid or uncapitalized interest) to students and parents of students made under FFELP and HEAL (in each case, excluding loans reported as over 180 days past due as of July 31, 2008 and any loans in claims status). The Eligible Underlying Assets related to the Existing Notes as defined in each Concurrent Offer are described in the respective annexes to this Statement.

"Ineligible Underlying Assets" means all other Underlying Assets, including (i) all "private" student loans, (ii) all FFELP or HEAL Program loans reported as over 180 days past due as of July 31, 2008 and (iii) any loans in claims status (in each case, including any accrued and unpaid or uncapitalized interest). The amount of Ineligible Underlying Assets related to each series of Outstanding Securities is set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Offer Priority."

The amounts of Ineligible Underlying Assets securing each Outstanding Indenture as of July 31, 2008 are set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Offer Priority."

Citi will solicit a number of investors to receive bids to purchase, in whole loan or securitized format, the Ineligible Underlying Assets that are "private" student loans. Citi intends to provide a bid for such Ineligible Underlying Assets through the same bid process, to ensure that at least one bid will be received. Citi's bid will be made by employees that have no knowledge of any non-public information received by Citi in its role as Dealer Manager, but in bidding, Citi will act as an independent party and will have no obligation to take into account the interests of holders of Outstanding Securities. See "Risk Factors—Citi has conflicts of interest." Citi believes that some investors may have a potential interest in purchasing the Ineligible Underlying Assets; however, there is no guarantee that more than the Citi bid will be received. Additionally, the winning bidder will provide a conditional offer (subject to closing of this Offer) and may be able to terminate the offer under certain limited instances that are typical for contracts for the purchase of securities.

Ineligible Underlying Assets that consist of FFELP or HEAL Program loans reported as over 180 days past due as of July 31, 2008 that have not entered claims status and loans that have entered claims status, other than those serviced by Chase Student Loan Servicing, LLC (formerly CFS-SunTech Servicing LLC), will, on the Settlement Date, be exchanged by the Outstanding Security Issuer that holds them with Trinity Higher Education Authority, Inc. for FFELP or HEAL Program loans that are not past due with a principal balance equal to 95% of the principal balance of the overdue loans exchanged. Loans that have entered claims status and are serviced by Chase Student Loan

| | |
|---|---|
| | Servicing, LLC will be retained by the relevant Outstanding Security Issuer, which will transfer any further payments in respect of such loans to us, and we will treat sums received in respect of those securities in the same manner that we treat sums received in respect of the Underlying Assets we hold.<br><br>The Underlying Assets securing all Outstanding Securities that are the subject of Concurrent Offers that are settled simultaneously will be combined (so that the Ineligible Underlying Assets will be jointly monetized and the Eligible Underlying Assets will jointly secure the New Notes). For a description of the Underlying Assets relating to the various Concurrent Offers, see the annexes hereto. |
| Funding of this Offer..... | We will not complete any Concurrent Offer (including this Offer) unless we succeed in resecuritizing the Underlying Assets that previously secured the Outstanding Securities that are the subject of that Concurrent Offer through a Resecuritization Process.<br><br>Subject to the conditions of this Offer, we will use our reasonable efforts to obtain through each Resecuritization Process funds sufficient to pay, in respect of the Concurrent Offers we selected on the applicable Offer Selection Date:<br><br>• the total consideration due to holders of the Outstanding Securities accepted in these Concurrent Offers,<br><br>• the costs of redemption of all other securities issued under the relevant Outstanding Indentures (including any Outstanding Securities that are the subject of, but are not tendered in, these Concurrent Offers),<br><br>• any amounts owing under arrangements identified under the heading "Other Obligations" in the annex relating to each of these Concurrent Offers,<br><br>• expenses related to these Concurrent Offers and the related Resecuritization Process (including the Dealer Manager's fees in respect of this Offer and the New Notes offering consisting of a commission of $2.50 for each $1,000 principal amount of Outstanding Securities accepted in the Concurrent Offers and an underwriting fee of $2.50 for each $1,000 principal amount of New Class A Notes issued in the related Resecuritization Process), and<br><br>• the costs of funding a reserve account and a capitalized interest account in respect of the New Notes issued in this Resecuritization Process, each as described in the preliminary offering memorandum attached to this Statement as Exhibit 1<br><br>(together with the New Class B Notes and New Class C Notes that we are required to deliver to holders of Outstanding Subordinate Securities accepted in these Concurrent Offers, collectively, the "Requisite Proceeds"). We have obtained from the Dealer Manager an undertaking to use its reasonable efforts in assisting us in obtaining the Requisite Proceeds through one or more Resecuritization Processes |

| | |
|---|---|
| | (though that undertaking does not constitute a commitment by the Dealer Manager to underwrite or purchase any New Notes).<br><br>The exact amount of the Requisite Proceeds will depend on factors including:<br><br>• the percentage of Outstanding Securities of different types tendered in these Concurrent Offers (and the related cost of redeeming any Outstanding Securities that are the subject of, but are not tendered in, these Concurrent Offers at par plus accrued interest and accrued carry-over interest);<br><br>• the cost of redeeming any other securities issued under the relevant Outstanding Indenture (as described in the relevant annex, if applicable to the Concurrent Offers being settled), which are being called at par plus accrued interest and, if applicable, accrued carry-over interest;<br><br>• final amounts owed or receivable upon wind up of derivative arrangements described under the heading "Other Obligations" in the annex relating to each of these Concurrent Offers;<br><br>• final amounts owed pursuant to tax provisions described under the heading "Other Obligations" in the annex relating to each of these Concurrent Offers;<br><br>• the final amount of expenses related to these Concurrent Offers and the related Resecuritization Process (including the Dealer Manager's fees in respect of this Offer and the New Notes offering); and<br><br>• the final costs of funding a reserve account and a capitalized interest account in respect of the New Notes issued in this Resecuritization Process.<br><br>Funds in the accounts that are maintained under, and subject to the lien of, the Existing Indenture will be transferred to us in connection with our acquisition of the Eligible Underlying Assets. Any accounts that are maintained under the Existing Indenture that are not subject to the lien of the Existing Indenture will remain with the Existing Issuer. |
| Redemption of Other Securities..... | If this Offer is consummated, the Outstanding Security Issuers in respect of whose Outstanding Securities Concurrent Offers are being settled at the same time (including the Existing Note Issuer) will concurrently call for redemption all other securities issued under the relevant Outstanding Indentures (including any Outstanding Securities that are the subject of, but are not tendered in, the other Concurrent Offers being settled), at a redemption price equal to the principal amount of such securities, plus accrued but unpaid interest (including carry-over interest, as described under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Redemption of Existing Notes not Tendered," where applicable) to, but not including, the redemption date. The redemption date will be the first date practicable, taking contractual terms of such other securities into account. This Statement does not constitute a call for redemption. |

| | |
|---|---|
| Agreement with Issuers of Outstanding Securities ..... | Each Outstanding Security Issuer has entered into a contract with the Dealer Manager pursuant to which it has agreed to cooperate in the implementation of the Concurrent Offers as described in the Statements, including through making arrangements for sale and transfer of the Underlying Assets on the terms contemplated by the Statements, cooperating in arrangements for the release of liens on the Underlying Assets and other appropriate actions. |
| Minimum Tender Condition ..... | The Minimum Tender Condition in respect of each Concurrent Offer is that (a) at least 95% of the outstanding aggregate principal amount of Existing Senior Notes (as defined in respect of that Concurrent Offer) are tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline (as defined in respect of that Concurrent Offer) and (b) at least 99% of the outstanding aggregate principal amount of Existing Subordinate Notes (as defined in respect of that Concurrent Offer) are tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline (as defined in respect of that Concurrent Offer). |
| Conditions to this Offer ..... | Notwithstanding any other provision of this Offer, our obligation to accept for purchase, and to pay for, Existing Notes validly tendered (and not validly withdrawn) pursuant to this Offer is subject to and conditioned upon the satisfaction of the Minimum Tender Condition described above as well as the other conditions specified herein under "Principal Terms of the Offer to Purchase and Consent Solicitation—Conditions to the Offer to Purchase and Consent Solicitation." We will not accept any Existing Notes tendered in this Offer unless this Offer is selected on an Offer Selection Date and we successfully enter into contracts, including a note purchase agreement in respect of the New Class A Notes, that provide for delivery to us of the Requisite Proceeds through the Resecuritization Process, and will not settle this Offer unless we obtain the Requisite Proceeds through the Resecuritization Process (the "Financing Condition"). The note purchase agreement in respect of the New Class A Notes will be subject only to terms and conditions that are customary for public underwritings. We will limit the amount of Underlying Assets in respect of which we pursue a Resecuritization Process at any time (and will not initially proceed with Concurrent Offers that would cause the total principal amount and accrued interest of Underlying Assets (as set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Offer Priority") securing the related Outstanding Securities to exceed the Reference Size).<br><br>We will not be obligated to proceed with any Resecuritization Process if we are advised by the Dealer Manager that, in its reasonable judgment based on prevailing market conditions, it is not reasonably likely that the related Eligible Underlying Assets could be securitized in a manner that would provide the Requisite Proceeds for the relevant Concurrent Offers (the "Marketing Condition").<br><br>If the conditions to this Offer are satisfied on the Expiration Date, our obligation to accept for payment, and to pay for, any Existing Notes validly tendered on or prior to the Expiration Date thereafter will only be conditioned upon the closing of the New Notes offering and the |

| | |
|---|---|
| | closing of the arrangements made for monetization or exchange of any Ineligible Underlying Assets. We may waive any of the conditions of the Offer to Purchase and the Consent Solicitation, in whole or in part, at any time, except that receipt of the Requisite Consents is required for the Proposed Amendments. |
| Senior Notes Total Consideration..... | We are offering Senior Notes Total Consideration for each $1,000 principal amount of Existing Senior Notes accepted in this Offer of cash in the amount specified in the covering term sheet, plus accrued but unpaid interest (other than carry-over interest). The Consent Payment is included in the Senior Notes Total Consideration, and consideration received by holders that tender after the Consent Date will be reduced by the amount of the Consent Payment. The Senior Notes Total Consideration offered under each Concurrent Offer was determined on the basis of the composition of the related Underlying Assets and the proportion and type of all securities issued under the related Outstanding Indenture. **Holders of Existing Senior Notes will waive any right to receive carry-over interest that may have accrued in respect of their Existing Senior Notes.** |
| Subordinate Notes Total Consideration..... | We are offering Subordinate Notes Total Consideration, for each $1,000 principal amount of Existing Subordinate Notes accepted in this Offer, consisting of (a) $200 in cash, (b) $200 principal amount of New Class B Notes and (c) $350 principal amount of New Class C Notes, plus, in cash, accrued but unpaid interest (other than carry-over interest). The Subordinate Notes Total Consideration offered in all Concurrent Offers is identical. **Holders of Existing Subordinate Notes will waive any right to receive carry-over interest that may have accrued in respect of their Existing Subordinate Notes.** |
| New Notes ..... | The New Notes will consist of the New Class A Notes, New Class B Notes and New Class C Notes. The New Notes issued pursuant to a given Resecuritization Process will be secured by a combined pool of all Eligible Underlying Assets related to the Concurrent Offers that were selected on the Offer Selection Date for the relevant Resecuritization Process.<br><br>The New Notes issued in different Resecuritization Processes will not be fungible with each other, will be secured by different Underlying Assets and will be issued under different indentures. The description of the New Notes in this Statement, including the preliminary offering memorandum attached as Exhibit 1, reflects the terms of the New Notes that we anticipate issuing at the Settlement Date resulting from the initial Resecuritization Process, based on assumptions described in that preliminary offering memorandum.<br><br>**The description of the New Notes is based upon assumptions, including that the amount of funds generated in the Resecuritization Process will equal the Requisite Proceeds and that the Concurrent Offers that are selected on the Initial Offer Selection Date will be the first through fourth Concurrent Offers listed in the Offer Priority. If either of these assumptions is inaccurate, we will circulate additional disclosure and extend related deadlines. See "The New Notes". Holders of Outstanding Securities related to the fifth through thirteenth Concurrent Offers listed in the Offer Priority should treat the preliminary offering** |

| | |
|---|---|
| | **memorandum attached hereto as Exhibit 1 as merely indicative and should review the preliminary offering memorandum applicable to their Outstanding Securities if and when available.**<br><br>If on an Offer Selection Date we select different Concurrent Offers than those assumed in the then-existing preliminary offering memorandum, we will amend this Statement to provide updated information regarding the relevant Concurrent Offers and the corresponding New Notes and announce the new Withdrawal Deadlines and Consent Dates (which will be at least 10 business days after such update) and new Expiration Dates (which will be at least 20 business days after such update).<br><br>If we extend the Expiration Date as described above, we expect to provide for two settlements in respect of the extended offer in the amended Statement containing the terms of this Offer as amended, with tenders received prior to the Consent Date being settled separately from tenders received thereafter.<br><br>We will sell the New Class A Notes for cash to fund the cash payment obligations in respect of the Concurrent Offers selected for the applicable Resecuritization Process. The New Class B Notes and New Class C Notes will be issued as part of the consideration delivered to tendering holders of Outstanding Subordinate Securities (and we will not sell any New Class B Notes or New Class C Notes for cash).<br><br>The applicable Eligible Underlying Assets will be combined into a single pool of collateral for the New Notes issued on any settlement date and the applicable Ineligible Underlying Assets will be jointly monetized for Concurrent Offers with the same settlement date. As a result, tendering holders of Outstanding Subordinate Securities will receive consideration that reflects the overall composition of all Underlying Assets related to a given Resecuritization Process and not just to the Outstanding Indenture under which their Outstanding Subordinate Securities were issued. See "Risk Factors—Underlying Assets related to multiple Outstanding Indentures will be combined."<br><br>To facilitate the New Notes offering, the Master Servicer of the New Notes has agreed to receive an administration fee in respect of the New Notes (exclusive of fees payable to third parties such as subservicers and trustees) equal to 0.15% per annum of the average monthly outstanding principal balance of student loans that serve as collateral for the New Notes. In addition, after we have acquired the Underlying Assets, no additional loans will be acquired under the Indenture, except for student loans that are required to be replaced or substituted, as described in the preliminary offering memorandum attached to this Statement as Exhibit 1. |
| New Class B Notes..... | The New Class B Notes are a class of New Notes. They will have the following characteristics:<br><br>• Size: $200 per $1,000 principal amount of Outstanding Subordinate Notes accepted in the Concurrent Offers that were selected on the Initial Offer Selection Date<br><br>• Ratings: "Aa2" from Moody's and "AA" from S&P |

- Coupon: 3-Month LIBOR+2.75%
- Estimated weighted average life: 13.50 years (based on the assumptions described under "The New Notes—New Class B Notes")
- Final maturity: September 26, 2039

Interest will accrue generally on the principal balances of the New Class B Notes during three-month accrual periods and will be paid on distribution dates. On any distribution date, payments of interest on the New Class B Notes will be subordinate to the payment of interest on the New Class A Notes and, under certain conditions, to the payment of principal on the Class A notes. Interest accrued as of any distribution date but not paid on that distribution date will be due on the next distribution date, together with an amount equal to interest on the unpaid amount at the interest rate applicable to the New Class B Notes. No principal payments on the New Class B Notes will be made until the principal amount of the New Class A Notes is reduced to zero.

**The ratings indicated above have not yet been assigned. If the indicated ratings cannot be obtained, we will amend this Offer and extend the related deadlines.**

Additional terms of the New Class B Notes are described in the preliminary offering memorandum attached to this Statement as Exhibit 1.

New Class C Notes..... The New Class C Notes are a class of New Notes.

They will have the following characteristics:

- Size: $350 per $1,000 principal amount of Outstanding Subordinate Notes accepted in the Concurrent Offers that were selected on the Initial Offer Selection Date
- Rating: "B3" from Moody's, "B-" from S&P or "B-" from Fitch
- Coupon: 3-Month LIBOR+3%
- Estimated weighted average life: 8.00 years (based on the assumptions described under "The New Notes—New Class C Notes")
- Final maturity: June 25, 2040

Interest will accrue generally on the principal balances of the New Class C Notes during three-month accrual periods and will be payable on each distribution date. On any distribution date, payments of interest and principal on the New Class C Notes will be subordinate to the payment of interest and required principal payments on the New Class A Notes and the New Class B Notes, and such payments will only be made to the extent that there are available funds remaining after all prior required distributions as described in the preliminary offering memorandum attached to this Statement as Exhibit 1. Interest accrued

| | |
|---|---|
| | as of any distribution date but not paid on that distribution date will be due on the next distribution date, together with an amount equal to interest on the unpaid amount at the interest rate applicable to the New Class C Notes. Generally, no amounts will be paid in respect of the New Class C Notes on a distribution date unless the specified overcollateralization amount with respect to that distribution date meets the minimum requirement, the amount on deposit in the reserve account is at required levels and there are available funds remaining after all required distributions senior in right of payment have been made, as described in the preliminary offering memorandum attached to this Statement as Exhibit 1.<br><br>It is impossible to predict the amount and timing of payments that will be received on the student loans, and consequently, when interest and principal will be paid on the New Class C Notes. See "Risk Factors—The Class C notes will not provide regular or predictable payments of interest and principal" in the preliminary offering memorandum attached to this Statement as Exhibit 1.<br><br>**The rating indicated above has not yet been assigned. If the indicated rating cannot be obtained, we will amend this Offer and extend the related deadlines.**<br><br>Additional terms of the New Class C Notes are described in the preliminary offering memorandum attached to this Statement as Exhibit 1. |
| Excess Proceeds..... | If a Resecuritization Process results in proceeds in excess of the Requisite Proceeds ("Excess Proceeds"), we will apply the Excess Proceeds to increase the cash consideration included in the Subordinate Notes Total Consideration (and, if applicable, the Senior Notes Total Consideration), as described below, and will extend the Expiration Date applicable to the untendered Existing Subordinate Notes (and, if applicable, untendered Existing Senior Notes) by no less than 10 business days but will not delay settlement in respect of tenders of Existing Notes received prior to the date of such extension (so that any additional Existing Notes received during the extension period will be separately settled).<br><br>The Excess Proceeds will first be applied to increase the cash consideration included in the Subordinate Notes Total Consideration by up to $70 per $1,000 principal amount of Existing Subordinate Notes accepted in this Offer (the amount that would cause the total notional amount of the Subordinate Notes Total Consideration to be increased up to $820 per $1,000 principal amount, although the value of the Subordinate Notes Total Consideration, if so increased, would remain significantly less than such notional amount). If the Excess Proceeds are sufficient to fund an increase of greater than $70 in cash consideration per $1,000 principal amount of Existing Subordinate Notes accepted in this Offer, any Excess Proceeds in excess of the total amount of such increase will be used to increase the cash consideration included in each of the Senior Notes Total Consideration and the Subordinate Notes Total Consideration by the same incremental amount per $1,000 principal amount of Existing Senior Notes and Existing Subordinate Notes accepted in this Offer, respectively. There can be no assurance that any Excess Proceeds will be obtained. |

| | |
|---|---|
| | In the extremely unlikely event that Excess Proceeds were available in an amount sufficient to increase the Senior Notes Total Consideration or Subordinate Notes Total Consideration in respect of all Concurrent Offers being settled together at a given Settlement Date (valuing New Class B Notes and New Class C Notes included in the Total Subordinated Notes Consideration based on their estimated market value for these purposes) to their par amount, plus accrued but unpaid interest, any amount above that level would be retained by the Outstanding Security Issuers. |
| Citi Note Election ..... | Immediately following the Expiration Date, holders whose Existing Senior Notes have been accepted for purchase in this Offer may, at their option, elect (the "Citi Note Election") to apply a portion of the cash they are entitled to receive, in an amount equal to the Citi Note Cash Price specified in the covering term sheet, to purchase an aggregate principal amount of Citi Notes (senior unsecured notes of Citigroup Inc.) equal to the Citi Note Principal Amount specified in the covering term sheet, so that they would receive Citi Notes in lieu of a portion of the cash otherwise deliverable to them at settlement. The ratio of the Citi Note Cash Price to the Citi Note Principal Amount specified in the covering term sheet reflects an offering price of 90% of principal amount for the Citi Notes.<br><br>**In order to be eligible to make a Citi Note Election (and thereby purchase Citi Notes) holders must indicate their nonbinding interest in doing so at the time they tender their Existing Senior Notes.** Such an indication of interest will not constitute an actual Citi Note Election, however. A Citi Note Election may only be made during the Citi Note Election Period, which will commence the day after the Expiration Date and be open for three business days (November 7, 2008 through and including November 11, 2008, unless amended by us). Holders may, at their option, tender their Existing Senior Notes without making a Citi Note Election and without purchasing any Citi Notes.<br><br>Citigroup Inc. will announce the final terms of the Citi Notes by issuing a press release on the Citi Notes Terms Announcement Date (the second business day prior to the Expiration Date, which will be November 4, 2008, unless the Expiration Date is extended by us). To make an effective Citi Note Election (and thereby purchase Citi Notes), holders that previously indicated their nonbinding interest at the time they tendered their Existing Senior Notes (and whose Existing Senior Notes have been accepted for purchase) must affirmatively accept these terms during the Citi Note Election Period.<br><br>If any holder whose Existing Senior Notes have been accepted in this Offer either chooses not to make or fails to effectively make a Citi Note Election during the Citi Note Election Period (after previously having entered a timely nonbinding indication of interest), that holder will receive the Senior Notes Total Consideration in cash (or that amount minus the Consent Payment if that holder tendered after the Consent Date) and will not receive any Citi Notes, notwithstanding any prior indication of interest.<br><br>If, after the final terms of the Citi Notes have been announced, we extend the Expiration Date by more than two business days, the final |

terms of the Citi Notes will be reset on the second business day preceding the new Expiration Date.

Certain terms of the Citi Notes are described in the preliminary prospectus attached to this Statement as Exhibit 2. The Citi Notes will bear interest at a floating rate equal to 3-Month LIBOR (as defined in the attached preliminary prospectus) plus a specified spread and will mature on the date seven years from their issue date or such other date as is announced in conjunction with the pricing of the Citi Notes.

Holders making a Citi Note Election will receive cash consideration at settlement plus a principal amount of Citi Notes that will be equal to the principal amount of the Existing Senior Notes they have tendered (plus accrued interest). The interest rate borne by the Citi Notes will be set at a level expected (based on conditions prevailing at the time the rate is set) to cause them to trade (to the extent to which any trading occurs) at a significant discount to their face value and initially at a market price that approximates the cash paid for such Citi Notes and therefore the Citi Note Election, when compared to taking all cash consideration, is not intended to increase the total value offered to participating holders of Existing Senior Notes. Holders that make a Citi Note Election and hold the resulting Citi Notes to maturity will, however, ultimately receive cash consideration at settlement and a payment of principal at the maturity of the Citi Notes that together are equal to the principal amount of the Senior Notes they have tendered plus accrued interest (assuming the Citi Notes perform in accordance with their terms). See "Risk Factors—The New Class B Notes and New Class C Notes offered as part of the Subordinate Notes Total Consideration and the Citi Notes offered under the Citi Note Election are all intended to trade at prices significantly below par or face value." Furthermore, it is anticipated that the Citi Notes will be issued with original issue discount. See "Certain U.S. Federal Income Tax Consequences—Tax Consequences to Tendering U.S. Holder of Existing Senior Notes" in this Statement and "United States Federal Income Tax Considerations—United States Holders—Original Issue Discount" in the preliminary prospectus attached to this Statement as Exhibit 2.

Citigroup Inc.'s obligation to issue the Citi Notes is conditioned upon receipt of the Citi Note Cash Price, closing of this Offer, Citi's performance as placement agent in connection with the Citi Notes under an agency agreement that is subject to customary terms and conditions, and the inapplicability of the force majeure and illegality clauses described under the heading "Plan of Distribution" in the preliminary prospectus attached to this Statement as Exhibit 2.

**Citigroup Inc. is not affiliated with us, is not making this Offer, will not have any obligation under the New Notes and did not prepare and is not responsible for this Statement. We and the Outstanding Security Issuers will not have any obligation under the Citi Notes and we did not prepare and are not responsible for the preliminary prospectus relating to the Citi Notes, which has been provided by Citigroup Inc. and is attached to this Statement solely for your convenience. The Citi Notes preliminary prospectus is not part of this Statement and is not incorporated by reference into this**

| | |
|---|---|
| | **Statement. The information regarding the Citi Notes in this Statement was provided by Citigroup Inc. and we and the Outstanding Security Issuers have no responsibility for such information. The Citi Notes are being offered exclusively by Citigroup Inc. pursuant to the preliminary prospectus attached hereto as Exhibit 2. Neither we nor any Outstanding Security Issuer are offering or soliciting offers for the Citi Notes.** |
| Dealer Manager and Underwriting Fees.... | We will pay the Dealer Manager for the Offer to Purchase a commission of $2.50 for each $1,000 principal amount of Outstanding Securities accepted in the Concurrent Offers and an underwriting fee of $2.50 for each $1,000 principal amount of New Class A Notes issued in the related Resecuritization Process. These amounts, together with expenses of the Concurrent Offers being simultaneously settled and the related Resecuritization Process will be deducted from proceeds of the related New Notes offering. |
| Consent Payment..... | The Total Consideration for each $1,000 principal amount of Existing Notes validly tendered by holders on or prior to the Consent Date, and not validly withdrawn thereafter, pursuant to this Offer includes, the Consent Payment of $5.00 per $1,000 principal amount of Existing Notes. Holders that tender after the Consent Date will receive the Total Consideration as reduced by the Consent Payment if their Existing Notes are accepted in this Offer. |
| Acceptance of Tendered Existing Notes and Payment ..... | Upon the terms of this Offer and upon satisfaction or waiver of the conditions to this Offer specified herein under "Principal Terms of the Offer to Purchase and Consent Solicitation—Conditions to the Offer to Purchase and Consent Solicitation," we will accept for purchase, no later than the Expiration Date, all Existing Notes validly tendered (or defectively tendered, if such defect is waived by us) and not validly withdrawn.<br><br>Provided that the conditions to this Offer have been satisfied or waived, payment for the Existing Notes validly tendered in the Offer to Purchase and for Consents delivered in the Consent Solicitation, including payment of accrued but unpaid interest (other than carry-over interest) up to (but not including) the date of payment for such Existing Notes will be made on the Settlement Date. Holders of Existing Notes that are validly tendered prior to the Consent Date and accepted in this Offer will be entitled to receive the Total Consideration. Holders of Existing Notes that are tendered thereafter and accepted in this Offer will be entitled to receive the Total Consideration as reduced by the Consent Payment. Payment for all Existing Notes accepted will be made on the Settlement Date.<br><br>We expect that the Settlement Date will occur promptly following acceptance. However, due to the complexities inherent in releasing the liens of the Outstanding Indentures and establishing the lien of the Indenture, together with other operational complexities of this Offer, the settlement cycle may be as long as five business days. If we increase the consideration offered to holders of the Existing Subordinate Notes (and, if applicable, Existing Senior Notes) as a result of obtaining Excess Proceeds, we will extend the Expiration Date applicable to the untendered Existing Subordinate Notes (and, if |

| | |
|---|---|
| | applicable, untendered Existing Senior Notes) by no less than 10 business days but will not delay settlement in respect of tenders of Existing Notes received prior to the date of such extension (so that any additional Existing Notes received during the extension period will be separately settled). If this occurs, purchase of all Existing Notes accepted as of the previously scheduled Expiration Date will be settled on the previously scheduled Settlement Date (following the previously scheduled Expiration Date) without regard to such extension.<br><br>Under the terms of the Outstanding Indenture, the Existing Notes are periodically subject to mandatory redemption (in whole or in part) from excess cash flows. Existing Notes that are tendered in this Offer will remain eligible for mandatory cash flow redemption until they are accepted on the Expiration Date. To process the redemption of any Existing Notes for which a notice of redemption is issued after they have been tendered but prior to acceptance on the Expiration Date, the DTC participant through which those Existing Notes are owned should electronically withdraw those Existing Notes from this Offer (and withdrawals under these circumstances will not be precluded by passage of the Withdrawal Deadline). Existing Notes that are accepted for purchase on the Expiration Date may not be withdrawn from this Offer thereafter, even if a notice of redemption is subsequently issued in respect of those Existing Notes.<br><br>We reserve the right to waive any defect in the tender of Existing Notes and to keep this Offer open or extend the Consent Date and/or the Expiration Date. |
| How to Tender Existing Notes and Deliver Consents..... | See "Procedures for Tendering Existing Notes and Delivering Consents." For further information, call the Information Agent or the Dealer Manager or consult your broker, dealer, commercial bank, trust company or other nominee for assistance. |
| Withdrawal and Revocation Rights..... | Tenders of Existing Notes may be validly withdrawn, and Consents may be validly revoked, at any time on or prior to the Withdrawal Deadline (5:00 p.m., New York City time, on October 17, 2008, as such date and time may be extended) but not thereafter. We may extend the Withdrawal Deadline applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other.<br><br>A valid withdrawal of tendered Existing Notes on or prior to the applicable Withdrawal Deadline will constitute the concurrent revocation of such holder's related Consent. To revoke Consents delivered in connection with tendered Existing Notes, holders must withdraw the related tendered Existing Notes. Any Existing Notes that are not validly withdrawn on or prior to the applicable Withdrawal Deadline may not, subject to limited exceptions, be withdrawn thereafter. |
| Certain U.S. Federal Income Tax Consequences..... | For a discussion of certain U.S. federal income tax consequences of the Offer to Purchase and the Consent Solicitation applicable to holders of Existing Notes, see "Certain U.S. Federal Income Tax Consequences." |

| | |
|---|---|
| Dealer Manager and Solicitation Agent..... | Citigroup Global Markets Inc. ("Citi") is serving as Dealer Manager and Solicitation Agent in connection with the Offer to Purchase and the Consent Solicitation. Its contact information appears on the back cover of this Statement.<br><br>Citi is subject to various conflicts of interest related to the Concurrent Offers (including this Offer), including as a result of Citi's ownership of a large amount of Outstanding Securities (particularly Outstanding Subordinate Securities). See "Risk Factors—Citi has conflicts of interest." As a result, holders should not rely on Citi to make any judgment for them as to the fairness of this Offer.<br><br>Holders are urged to consult their own independent advisors prior to accepting or rejecting this Offer. Citi makes no recommendation to the holders whether to accept or reject this Offer.<br><br>Citi owns a substantial amount of the Outstanding Securities. See "Risk Factors—Citi has conflicts of interest—Citi's ownership of the Existing Notes, particularly the Existing Subordinate Notes, creates a conflict of interest." The employees of Citi ("public side employees") who have authority to decide whether to tender the Outstanding Securities owned by Citi and its affiliates into this Offer are restricted for legal and policy reasons from communicating with certain other Citi employees ("private side employees"). The terms of the Concurrent Offers were not disclosed to the public side employees in advance of the launch of the Concurrent Offers. Any decision by Citi to tender the Outstanding Securities owned by it into the Concurrent Offers will be made by public side employees based on the best interests of Citi, without regard to and independent of its role as Dealer Manager. Due to the amount of Outstanding Securities Citi owns, if Citi does not participate in the Concurrent Offers, the Minimum Tender Condition will not be met for any Concurrent Offer and the Concurrent Offers will not succeed. |
| Notice Regarding Settlements ..... | On August 7, 2008, Citi announced that it had reached an agreement in principle with each of the New York Attorney General, the Securities and Exchange Commission, and other state regulatory agencies regarding settlements in respect of certain auction rate securities. Pursuant to the agreements in principle, Citi will make a Settlement Offer pursuant to which it will offer to purchase at par by no later than November 5, 2008, auction rate securities that are not auctioning from holders that are eligible (as described below) to participate in the Settlement Offer under the agreements in principle. Outstanding Securities that are auction rate securities may be covered by the agreements in principle, and if held by an eligible holder as defined in the agreements, will be eligible to be sold to Citi at par pursuant to the Settlement Offer that Citi will make in the near future.<br><br>**Holders that are eligible to participate in the Settlement Offer are not eligible to participate in this Offer and are excluded from this Offer. Under the agreements in principle, individuals, charities and small institutions (as defined by the terms of the agreements in principle) that purchased from Citi on or before February 11, 2008, Outstanding Securities that are auction rate securities that** |

| | |
|---|---|
| | **are not auctioning will be included in the Settlement Offer, and, as a result, are not eligible to participate in this Offer. These holders will be receiving offer materials for the Settlement Offer from Citi in the near future. Any holder that believes it may be eligible to participate in the Settlement Offer should contact Citi at (866) 720-4802. Citi will advise any holder who calls that number whether or not they are eligible to participate in the Settlement Offer and holders that are eligible to participate in the Settlement Offer will not be eligible to participate in this Offer.**<br><br>**Certain other broker-dealers have also announced settlements or buyback offers in respect of auction rate securities sales and investors that bought the Outstanding Securities through broker-dealers other than Citi should contact their broker if they believe an offer in respect of any such settlement or buyback may be available to them.** |
| Offering Restrictions ..... | Holders that are eligible to participate in the Settlement Offer described under "Notice Regarding Settlements" are not eligible to participate in this Offer and are excluded from this Offer, whether they hold Existing Senior Notes or Existing Subordinated Notes.<br><br>There are no other initial limitations on holders of Existing Senior Notes that may participate in this Offer, provided that this Statement constitutes neither an offer to purchase or exchange Existing Notes nor a solicitation of Consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable securities or blue sky laws.<br><br>To facilitate compliance with state securities and blue sky laws, holders of Existing Subordinate Notes must meet the eligibility requirements set forth in Schedule I in order to participate in this Offer.<br><br>The Letter of Transmittal for this Offer will contain a representation required of all Existing Subordinate Note holders tendering in this Offer as to their eligibility. If you hold Existing Subordinate Notes but are not eligible to participate in this Offer, please contact the Dealer Manager.<br><br>If we become aware of any jurisdiction where the making of the Offer to Purchase or the Consent Solicitation would not be in compliance with applicable laws, we will make a good faith effort to comply with any such laws or may seek to have such laws declared inapplicable to the Offer to Purchase and the Consent Solicitation. If, after such good faith effort, we cannot comply with any such applicable laws, the Offer to Purchase or the Consent Solicitation will not be made to (nor will tenders or Consents be accepted from or on behalf of) the holders of Existing Notes residing in each such jurisdiction. |
| Certain ERISA Considerations ..... | Each holder tendering Existing Subordinate Notes will, by doing so, represent and warrant that it is not a Benefit Plan Investor unless it has affirmatively indicated otherwise in its Letter of Transmittal (including any Letter of Transmittal deemed submitted by an Agent's Message). A "Benefit Plan Investor" is any (a) employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (including without limitation, pension plans), (b) |

| | |
|---|---|
| | plan to which Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), applies (including without limitation, individual retirement accounts and Keogh plans) or (c) entity whose underlying assets include plan assets by reason of investment in such entity by any plan described in clause (a) or (b) (including without limitation, bank collective investment funds and insurance company general accounts). This indication is required in order to allow us to gather information that we need for compliance purposes, and, in particular, to determine the aggregate principal amount of Existing Subordinate Notes tendered by Benefit Plan Investors. Each holder tendering Existing Subordinates Notes that is a Benefit Plan Investor will, by doing so, also represent and warrant that our acceptance of such tender will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code. |
| Depositary..... | Global Bondholder Services Corporation is serving as Depositary in connection with the Offer to Purchase and the Consent Solicitation. Its contact information appears on the back cover of this Statement. |
| Information Agent ..... | Global Bondholder Services Corporation is serving as Information Agent in connection with the Offer to Purchase and the Consent Solicitation. Requests for additional copies of the Offer Documents and any other required documents should be directed to the Information Agent. Its contact information appears on the back cover of this Statement. |

## FORWARD-LOOKING STATEMENTS

Certain statements contained in or incorporated by reference into this Statement are "forward-looking statements" and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Matters discussed in or incorporated by reference into this Statement that relate to events or developments that are expected to occur in the future constitute forward-looking statements. Forward-looking statements are based on management's beliefs, assumptions and expectations of future economic performance, taking into account the information currently available to management. These statements may be identified by the use of words like "plans," "expects," "aims," "believes," "projects," "anticipates," "intends," "estimates," "will," " should," "could" and other expressions that indicate future events and trends.

Forward-looking statements speak only as of the date of the document in which they are made. We disclaim any obligation or undertaking to provide any updates or revisions to any forward-looking statement to reflect any change in our expectations or any change in events, conditions or circumstances on which the forward-looking statement is based.

## RISK FACTORS

**Investment in the New Class B Notes and New Class C Notes offered as part of the Subordinate Notes Total Consideration or the Citi Notes offered under the Citi Note Election involves risk.**

Holders of Existing Senior Notes that are considering making a Citi Note Election should carefully review the risk factors relating to the Citi Notes set forth under the heading "Risk Factors" in the preliminary prospectus attached to this Statement as Exhibit 2. Holders of Existing Subordinate Notes should carefully review the risk factors relating to the New Class B Notes and New Class C Notes offered as part of the Subordinate Notes Total Consideration set forth under the heading "Risk Factors" in the preliminary offering memorandum attached to this Statement as Exhibit 1.

**The value of the consideration offered to holders of Existing Subordinate Notes is significantly below par or face value of the Existing Subordinate Notes.**

The value of the consideration being offered to Holders of the Existing Subordinate Notes is significantly lower than the par or face value of the Existing Subordinate Notes. Holders are urged to seek current advice from their independent brokers or other advisors prior to deciding whether to participate in this Offer.

**Tendering holders of Existing Notes may not experience greater liquidity in trading of the New Class B Notes, New Class C Notes and Citi Notes than in their Existing Notes.**

The New Class B Notes, New Class C Notes and Citi Notes are all new classes of securities with no existing trading markets and the development or liquidity of a trading market in any of these classes is uncertain. See "You may have difficulty selling your notes" under the heading "Risk Factors" in the preliminary offering memorandum attached to this Statement as Exhibit 1 and "There may be no trading market for the Citigroup Notes" under the heading "Risk Factors" in the preliminary prospectus attached to this Statement as Exhibit 2.

**If this Offer is consummated, the Existing Note Issuer will call for redemption all Existing Notes not tendered in this Offer. In addition, under the terms of each Outstanding Indenture, the Existing Notes are periodically subject to mandatory redemption (in whole or in part) from excess cash flows.**

If this Offer is consummated, the Existing Note Issuer will concurrently call for redemption all Existing Notes not tendered in this Offer, at a redemption price equal to the principal amount of such Existing Notes, plus accrued but unpaid interest (including carry-over interest, as described under "Principal Terms of the Offer to Purchase and the Consent Solicitation—Redemption of Existing Notes not Tendered," where applicable) to, but not including, the redemption date. The redemption date will be the first date practicable, taking contractual terms of such Existing Notes into account. In addition, under the terms of each Outstanding Indenture, the Existing Notes are periodically subject to mandatory redemption (in whole or in part) from excess cash flows. Holders may derive greater economic benefit from declining to tender Existing Notes pursuant to this Offer and instead receiving the redemption price payable upon redemption of untendered Existing Notes if this Offer is completed or, if applicable, upon redemption of their Existing Notes pursuant to mandatory cash flow redemptions if this Offer is not completed. Failure to tender Existing Notes may cause the Minimum Tender Condition to fail to be fulfilled, however, which in turn may cause this Offer not to proceed.

**The New Class B Notes and New Class C Notes Offered as part of the Subordinate Notes Total Consideration and the Citi Notes offered under the Citi Note Election are all intended to trade at prices significantly below par or face value.**

The New Class B Notes and New Class C Notes offered as part of the Subordinate Notes Total Consideration and the Citi Notes offered under the Citi Note Election have not been structured to trade initially at their par or face value and each of those classes of securities contains terms that are expected to cause them to trade (to the extent to which any trading occurs) at a significant discount to such value. In addition, because there is no established trading market for any of those securities, there can be no assurance of what market value they may have (and in the case of

the Citi Notes, that market value may be less than their cash offer price). Holders must independently consider the value of such securities.

**The Citi Note Election is not intended to increase the total value offered to participating holders of Existing Senior Notes.**

Although holders that make a Citi Note Election and hold the resulting Citi Notes to maturity will ultimately receive cash consideration at settlement and a payment of principal at the maturity of the Citi Notes that together are equal to the principal amount of the Senior Notes they have tendered plus accrued interest (assuming the Citi Notes perform in accordance with their terms), the interest rate borne by the Citi Notes will be set at a level expected (based on conditions prevailing at the time the rate is set) to cause them to trade (to the extent to which any trading occurs) at a significant discount to their face value and initially at a market price that approximates the cash paid for such Citi Notes and therefore the Citi Note Election, when compared to taking all cash consideration, is not intended to increase the total value offered to participating holders of Existing Senior Notes. The Settlement Date for this Offer may occur as late as seven business days following the Citi Notes Terms Announcement Date (as described under "Acceptance of Existing Notes for Purchase; Payment for Existing Notes; Payment Of Consent Payments") and prevailing interest rates may increase or decrease during that period, causing the Citi Notes to be worth more or less than the cash purchase price as of the Settlement Date.

**Citi has conflicts of interest.**

*Citi's ownership of the Existing Notes, particularly the Existing Subordinate Notes, creates a conflict of interest.*

Citi is the Dealer Manager for each of the Concurrent Offers (including this Offer). Citi or its affiliates own a substantial amount of the Outstanding Securities. As a result, Citi has a material economic interest in the successful outcome of the Concurrent Offers that is in addition to any dealer manager or underwriter fees it might earn.

In particular, as of August 31, 2008, Citi owned:

- approximately $671 million aggregate principal amount of the Outstanding Senior Securities (representing 0% to approximately 36.4% and a weighted average of 13.1% of the Outstanding Senior Securities that are the subject of each of the various Concurrent Offers), and

- approximately $458 million aggregate principal amount of the Outstanding Subordinate Securities (representing approximately 0.7% to 100% and a weighted average of 55.1% of the Outstanding Subordinate Securities that are the subject of each of the various Concurrent Offers).

Due to the amount of Outstanding Securities Citi owns, if Citi does not participate in the Concurrent Offers, the Minimum Tender Condition will not be met for any Concurrent Offer and the Concurrent Offers will not succeed.

Because of the holdings described above, the economic impact of the Concurrent Offers on Citi will vary significantly depending on how the Concurrent Offers were structured. In particular, due to Citi's large holdings of Outstanding Subordinate Securities, offer structures that are advantageous to the holders of Outstanding Subordinate Securities (and therefore disadvantageous to the holders of Outstanding Senior Securities) would generally favor Citi's interests. Because insufficient acceptance by holders of either the Outstanding Senior Securities or the Outstanding Subordinate Securities that are the subject of a given Concurrent Offer would result in the inability to complete that Concurrent Offer, the Concurrent Offers have been structured with the general intent of appealing to a broad cross-section of holders.

Holders should not rely on Citi to make any judgment for them as to the desirability or fairness of this Offer. Holders are urged to consult their own independent advisors prior to accepting or rejecting this Offer. The individuals with that responsibility have no obligation to tender or refrain from tendering Outstanding Securities beneficially owned by Citi in any Concurrent Offers. Citi makes no recommendation to the holders whether to accept or reject this Offer.

Citi also intends to provide a bid for, and may purchase, certain Ineligible Underlying Assets. In bidding, Citi is acting as an independent party and as principal for its own account. It has no obligation to take into account the interests of holders of Outstanding Securities or any other party and therefore Citi has no obligation to bid at a price that is equal to or above fair market value. While Citi will be contacting a number of bidders, the market for such assets is expected to be limited, and thus the price received for such assets, including Citi's bid, may not reflect inherent value.

*The terms of this Offer have been established by us and Citi and do not necessarily reflect the valuation of the Outstanding Securities.*

The terms of the Concurrent Offers have been established by us and Citi in an effort to establish a viable exchange and offer to purchase. The terms do not reflect any effort by us or Citi to ascertain or reflect any objective measure of the value of the Outstanding Securities. The value of the consideration offered does not bear any relationship to the asset book value, past operations, cash flows, losses, financial condition or any other established criteria for value of us, the Existing Note Issuer or the Underlying Assets. As a result, the terms of this Offer should not be considered an indication of the actual value of the Outstanding Securities or the New Notes.

While this Offer, if successful, could benefit the holders of the Existing Notes, it is possible that another transaction on different terms, if successfully launched and closed, could be more beneficial to some or all classes of Existing Notes.

No representation is made that this Offer is fair to any holder and we, the Existing Note Issuer and Citi do not make any recommendation as to whether a holder should participate in this Offer.

**Underlying Assets related to multiple Outstanding Indentures will be combined.**

Because the Subordinate Notes Total Consideration offered in all Concurrent Offers is identical and Eligible Underlying Assets will be combined, tendering holders of Outstanding Subordinate Securities will receive consideration that reflects the overall composition of all Underlying Assets related to a given Resecuritization Process and not just to the Outstanding Indenture under which their Outstanding Subordinate Securities were issued.

**The U.S. tax treatment of certain aspects of this Offer are uncertain**

No statutory, judicial or administrative authority directly addresses a transaction substantially similar to this Offer with respect to the Existing Notes and the New Notes. In addition, according to the preliminary offering memorandum relating to the New Notes attached to this Statement as Exhibit 1, the characterization of the New Class C Notes is subject to some uncertainty. As a result, significant aspects of the U.S. federal income tax consequences of tendering Existing Notes in this Offer are not certain. For example, the timing and character of gain or loss for U.S. tax purposes may be different from the treatment set forth under "Certain U.S. Federal Income Tax Consequences" below. No ruling is being requested from the Internal Revenue Service with respect to the New Notes or this Offer, and no assurance can be given that the Internal Revenue Service will agree with the conclusions expressed under "Certain U.S. Federal Income Tax Consequences" below. Prospective participants in this Offer should consult their own tax advisors to determine the tax consequences to them of tendering Existing Notes.

**This Offer may not be completed.**

This Offer is subject to and conditioned upon, among other things, the satisfaction of the Minimum Tender Condition and the Financing Condition. In addition, we will limit the amount of Underlying Assets in respect of which we pursue a Resecuritization Process at any time (and will initially exclude any Concurrent Offers that would cause the Reference Size to be exceeded). Further, we will not be obligated to proceed with any Resecuritization Process if we are advised by the Dealer Manager that, in its reasonable judgment based on prevailing market conditions, it is not reasonably likely that the related Eligible Underlying Assets could be securitized in a manner that would provide the Requisite Proceeds for the relevant Concurrent Offers. As a result, we may terminate this Offer without completion.

In the event that this Offer is terminated or otherwise not completed, Existing Notes tendered pursuant to this Offer will be promptly returned to the tendering holders and no payment will become payable. If we extend the Expiration Date for this Offer, we will retain any Outstanding Securities that were tendered pending completion or termination of this Offer, provided that we will extend the Withdrawal Deadlines, Consent Dates and Expiration Dates for the Concurrent Offers that are not selected at the Initial Offer Selection Date.

In the event this Offer is not completed, there is no assurance that any regulatory action or subsequent offer will occur or whether any such action or offer would result in a better or worse outcome for holders.

## BACKGROUND TO THIS OFFER

According to articles in the news media, since February 2008, auctions for auction rate securities backed by education loans to students and parents of students made under the Federal Family Education Loan Program (FFELP) and the Health Education Assistance Loan Program (HEAL) generally have failed and meaningful trading markets for those securities have generally not been available during that time. In addition to their impact on trading markets, auction failures have resulted in the payment of interest at contractually stipulated rates that may erode parity ratios and, if continued, may result in the impairment of the principal of subordinate securities in these auction rate structures.

Almost all of the Outstanding Securities are auction rate securities. Each Concurrent Offer (including this Offer) is intended to provide holders of the related Outstanding Securities an opportunity to receive, in exchange for their Outstanding Securities, cash or new securities bearing interest at a rate determined on a basis that does not involve auctions.

To generate the Requisite Proceeds necessary to complete a given Concurrent Offer, the Underlying Assets securing the related Outstanding Indenture must be successfully resecuritized in a Resecuritization Process. Because completion of the Resecuritization Process requires release of the existing liens on the relevant Underlying Assets, all Outstanding Securities under each Outstanding Indenture in respect of which a Concurrent Offer is completed will be retired. Funds to redeem Outstanding Securities that are not retired through a Concurrent Offer will be limited and as a result a high minimum participation level (the Minimum Tender Condition) has been established for each Concurrent Offer.

Because insufficient acceptance by holders of either the Outstanding Senior Securities or the Outstanding Subordinate Securities that are the subject of a given Concurrent Offer would result in the inability to complete that Concurrent Offer, the Concurrent Offers have been structured with the intent of appealing to a broad cross-section of holders.

The Concurrent Offers will not result in payment in full of the face value of any Outstanding Securities. In particular, holders of Outstanding Subordinate Securities will receive consideration the value of which is significantly less than the face value of their Outstanding Subordinate Securities. See “Risk Factors—The value of the consideration offered to holders of Existing Subordinate Notes is significantly below par or face value of the Existing Subordinate Notes.” Any successfully completed Concurrent Offers will, however, offer holders an alternative to continued ownership of their Outstanding Securities.

## PRINCIPAL TERMS OF THE OFFER TO PURCHASE AND THE CONSENT SOLICITATION

### The Offer to Purchase

Subject to the terms and conditions described in the Offer Documents, we are offering:

- For each $1,000 principal amount of Existing Senior Notes (as identified in the covering term sheet and further described in the annex hereto identified in the covering term sheet) tendered prior to the Consent Date, the Senior Notes Total Consideration specified in the covering term sheet, which includes the Consent Payment of $5.00, and
- For each $1,000 principal amount of Existing Subordinate Notes (as identified in the covering term sheet and further described in the annex hereto identified in the covering term sheet) tendered prior to the Consent Date, Subordinate Notes Total Consideration consisting of:
  - $200 in cash, which includes the Consent Payment of $5.00,
  - $200 principal amount of New Class B Notes, and
  - $350 principal amount of New Class C Notes, and
- for all Existing Notes, cash in an amount equal to accrued but unpaid interest (other than carry-over interest) to but excluding the Settlement Date.

For Existing Notes tendered after the Consent Date, we are offering the applicable consideration described above, minus the Consent Payment. **Holders of Existing Notes will waive any right to receive carry-over interest that may have accrued in respect of their Existing Notes.**

The Senior Notes Total Consideration offered under each Concurrent Offer was determined on the basis of the composition of the related Underlying Assets and the proportion and type of all securities issued under the related Outstanding Indenture. The Subordinate Notes Total Consideration offered in all Concurrent Offers is identical. Certain terms of the New Class B Notes and New Class C Notes are described under "New Notes" below and in the preliminary offering memorandum attached to this Statement as Exhibit 1. **The descriptions of New Class B Notes and New Class C Notes, and the preliminary offering memorandum, have been prepared based on the assumption that the Concurrent Offers that are selected on the Initial Offer Selection Date will be the first through fourth Concurrent Offers listed in the Offer Priority.**

### The Consent Solicitation

In conjunction with the Offer to Purchase, we are soliciting Consents to Proposed Amendments to the Existing Indenture under which the Existing Senior Notes and the Existing Subordinate Notes were issued. See "Proposed Amendments to the Existing Indenture." Each holder that validly consents to the Proposed Amendments on or prior to the Consent Date (and does not validly revoke such consent) will be eligible to receive the Consent Payment in cash, subject to the terms and conditions set forth in the Offer Documents. Holders that validly tender Existing Notes pursuant to the Offer to Purchase will be deemed to have delivered Consents to the Proposed Amendments by such tender and holders must tender their Existing Notes in order to deliver their Consent.

The Consent Solicitation will expire at 5:00 p.m., New York City time, on October 17, 2008, unless extended by us. We may extend the Consent Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other.

The Total Consideration for each $1,000 principal amount of Existing Notes validly tendered by holders on or prior to the Consent Date, and not validly withdrawn thereafter, includes the Consent Payment of $5.00 per $1,000 principal amount of Existing Notes. Holders that tender after the Consent Date will receive the Total Consideration as reduced by the Consent Payment if their Existing Notes are accepted in this Offer.

The Offer to Purchase and the Consent Solicitation, taken together, constitute this Offer.

**Expiration Date**

This Offer will expire at 8:00 a.m., New York City time, on November 6, 2008, unless extended by us. We may extend the Expiration Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other.

**Purpose of this Offer**

The principal purposes of this Offer are (1) to acquire and retire all outstanding Existing Notes and (2) to amend the Existing Indenture to facilitate defeasance of the Existing Indenture.

**Concurrent Offers**

This Offer is one of thirteen similar Concurrent Offers that we are making through thirteen different term sheets (each term sheet, together with this Offer to Purchase or Exchange, describing the specific subject matter of one of the Concurrent Offers). Each of the Concurrent Offers is being made in respect of Outstanding Securities issued under a different Outstanding Indenture to which the relevant Outstanding Security Issuer is a party. Obligations under each of the Outstanding Indentures are secured by a security interest in Underlying Assets consisting of specified student loans. The respective Outstanding Indentures and related Outstanding Securities and Underlying Assets, as well as certain related arrangements, are described in the attached annexes labeled Annex 1 through Annex 13. As of August 31, 2008, the Outstanding Securities had a combined outstanding aggregate principal amount of $5,952,100,000.

The Master Servicer, The Brazos Higher Education Service Corporation, Inc., has entered into separate contracts under which it manages the business affairs of each of the Outstanding Security Issuers, including the Existing Note Issuer. The Master Servicer also manages our business affairs, pursuant to a master servicing contract.

**Offer Selection Date**

At the Initial Offer Selection Date (at or before 12:00 noon, New York City time, on October 20, 2008 unless extended by us), we will select and announce the Concurrent Offers that we will attempt to fund in the initial Resecuritization Process. We will make this decision by sequentially selecting Concurrent Offers, according to the Offer Priority set forth under "—Offer Priority," for which the Minimum Tender Condition has been satisfied, excluding any Concurrent Offer that would cause the total principal amount and accrued interest of Underlying Assets (as set forth under "—Offer Priority") securing the Outstanding Securities of the selected Concurrent Offers to exceed the Reference Size (which will be $2.02 billion for the initial Resecuritization Process). If, in our reasonable judgment based on prevailing market conditions, inclusion of any given Concurrent Offer in the Concurrent Offers selected would cause the total amount of Ineligible Underlying Assets of any type to exceed the amount that can be included in the Resecuritization Process without causing the Marketing Condition to cease to be satisfied, we may exclude that Concurrent Offer from the selection.

Promptly following an Offer Selection Date, we will extend the Expiration Dates, Withdrawal Deadlines and Consent Dates for the Concurrent Offers that were not selected on or prior to that date. The extension is expected initially to be to the fifth business day following the Settlement Date for the Concurrent Offers that were selected on the most recent Offer Selection Date. Subject to the conditions described herein, if we are able to complete a Resecuritization Process and the Concurrent Offers to be funded thereby, we will conduct a new selection process and proceed with a new, additional Resecuritization Process in respect of the remaining Concurrent Offers, using the same criteria as for the initial selection. Upon announcement of any such continuation we will amend this Statement to provide updated information regarding the relevant Concurrent Offers and the corresponding New Notes and announce the new Withdrawal Deadlines and Consent Dates (which will be at least 10 business days after such update) and new Expiration Dates (which will be at least 20 business days after such update). We will, subject to the conditions described herein, repeat this process until all of the Concurrent Offers have been completed.

**Offer Priority**

The Offer Priority used in selecting Concurrent Offers on the Initial Offer Selection Date (and certain related data, including the total Underlying Asset amounts as of July 31, 2008 that will be used in calculating the Reference Size) will be as follows:

| Rank (and Annex number) | Indenture | Eligible Underlying Assets (1) | Ineligible Underlying Assets (1) | Total Underlying Assets (1) |
|---|---|---|---|---|
| 1. | BHEA 1993AC | $1,235,079,449 | $43,951,863 | $1,279,031,312 |
| 2. | AFC 2005 | 102,330,904 | 3,084,678 | 105,415,582 |
| 3. | EFSI 2003 | 387,039,946 | 10,623,017 | 397,662,962 |
| 4. | FSFC 2003 | 225,356,745 | 4,732,943 | 230,089,689 |
| 5. | BHEA 1993B | 1,468,117,106 | 41,474,881 | 1,509,591,988 |
| 6. | BSFC 2003-2 | 472,821,067 | 13,471,329 | 486,292,396 |
| 7. | BHEA 1999 | 547,998,596 | 18,090,122 | 566,088,718 |
| 8. | EDI 2003 | 244,656,622 | 3,121,447 | 247,778,069 |
| 9. | BSFC 1995 | 364,462,731 | 5,300,611 | 369,763,342 |
| 10. | BHEA 1992C | 272,129,874 | 12,480,952 | 284,610,826 |
| 11. | THEA 2004 | 43,734,959 | 7,185,838 | 50,920,797 |
| 12. | BSFC 2003-1 | 142,636,733 | 32,364,420 | 175,001,153 |
| 13. | BSFC 1998 | 40,194,358 | 90,435,498 | 130,629,856 |
| **Total** | | **$5,546,559,090** | **$286,317,599** | **$5,832,876,689** |

(1) Amounts shown do not include interest that is accrued but unpaid in respect of current periods. Total amounts may not tie due to rounding.

**Resecuritization Process**

A Resecuritization Process, with respect to the Concurrent Offers we select on an Offer Selection Date, is the process of:

- offering and selling for cash the New Class A Notes issued by us under the Indenture, secured by the combination of all Eligible Underlying Assets that previously secured the Outstanding Securities that are the subject of these Concurrent Offers,

- issuing New Class B Notes and New Class C Notes under the Indenture, secured on a subordinate basis by the same collateral as the New Class A Notes, as part of the consideration delivered to tendering holders of the Outstanding Subordinate Securities that are the subject of these Concurrent Offers, and

- otherwise monetizing or exchanging the Ineligible Underlying Assets that previously secured the Outstanding Securities that are the subject of these Concurrent Offers.

"Eligible Underlying Assets" means education loans (including any accrued and unpaid or uncapitalized interest) to students and parents of students made under FFELP and HEAL (in each case, excluding loans reported as over 180 days past due as of July 31, 2008 and any loans in claims status). The Eligible Underlying Assets related to the Existing Notes as defined in each Concurrent Offer are described in the respective annexes to this Statement.

"Ineligible Underlying Assets" means all other Underlying Assets, including (i) all "private" student loans, (ii) all FFELP or HEAL Program loans reported as over 180 days past due as of July 31, 2008 and (iii) any loans in claims status (in each case, including any accrued and unpaid or uncapitalized interest). The amount of Ineligible Underlying Assets related to each series of Outstanding Securities is set forth above under "—Offer Priority."

The amounts of Ineligible Underlying Assets securing each Outstanding Indenture as of July 31, 2008 are set forth above under "—Offer Priority."

Citi will solicit a number of investors to receive bids to purchase, in whole loan or securitized format, the Ineligible Underlying Assets that are "private" student loans. Citi intends to provide a bid for such Ineligible Underlying Assets through the same bid process to ensure that at least one bid will be received. Citi's bid will be made by employees that have no knowledge of any non-public information received by Citi in its role as Dealer Manager, but in bidding, Citi will act as an independent party and will have no obligation to take into account the interests of holders of Outstanding Securities. Citi believes that some investors may have a potential interest in purchasing the Ineligible Underlying Assets; however, there is no guarantee that more than the Citi bid will be received. Additionally, the winning bidder will provide a conditional offer (subject to closing of this Offer) and may be able to terminate the offer under certain limited instances that are typical for contracts for the purchase of securities.

Ineligible Underlying Assets that consist of FFELP or HEAL Program loans reported as over 180 days past due as of July 31, 2008 that have not entered claims status and loans that have entered claims status, other than those serviced by Chase Student Loan Servicing, LLC (formerly CFS-SunTech Servicing LLC), will, on the Settlement Date, be exchanged by the Outstanding Security Issuer that holds them with Trinity Higher Education Authority, Inc. for FFELP or HEAL Program loans that are not past due with a principal balance equal to 95% of the principal balance of the overdue loans exchanged. Loans that have entered claims status and are serviced by Chase Student Loan Servicing, LLC will be retained by the relevant Outstanding Security Issuer, which will transfer any further payments in respect of such loans to us, and we will treat sums received in respect of those securities in the same manner that we treat sums received in respect of the Underlying Assets we hold.

The Underlying Assets securing all Outstanding Securities that are the subject of Concurrent Offers that are settled simultaneously will be combined (so that the Ineligible Underlying Assets will be jointly monetized and the Eligible Underlying Assets will jointly secure the New Notes). For a description of the Underlying Assets relating to the various Concurrent Offers, see the annexes hereto.

**Funding of this Offer**

We will not complete any Concurrent Offer (including this Offer) unless we succeed in resecuritizing the Underlying Assets that previously secured the Outstanding Securities that are the subject of that Concurrent Offer through a Resecuritization Process.

Subject to the conditions of this Offer, we will use our reasonable efforts to obtain through each Resecuritization Process funds sufficient to pay, in respect of the Concurrent Offers we selected on the applicable Offer Selection Date:

- the total consideration due to holders of the Outstanding Securities accepted in these Concurrent Offers,

- the costs of redemption of all other securities issued under the relevant Outstanding Indentures (including any Outstanding Securities that are the subject of, but are not tendered in, these Concurrent Offers),

- any amounts owing under arrangements identified under the heading "Other Obligations" in the annex relating to each of these Concurrent Offers,

- expenses related to these Concurrent Offers and the related Resecuritization Process (including the Dealer Manager's fees in respect of this Offer and the New Notes offering consisting of a commission of $2.50 for each $1,000 principal amount of Outstanding Securities accepted in the Concurrent Offers and an underwriting fee of $2.50 for each $1,000 principal amount of New Class A Notes issued in the related Resecuritization Process), and

- the costs of funding a reserve account and a capitalized interest account in respect of the New Notes issued in this Resecuritization Process, each as described in the preliminary offering memorandum attached to this Statement as Exhibit 1

(together with the New Class B Notes and New Class C Notes that we are required to deliver to holders of Outstanding Subordinate Securities accepted in these Concurrent Offers, collectively, the "Requisite Proceeds"). We have obtained from the Dealer Manager an undertaking to use its reasonable efforts in assisting us in obtaining the Requisite Proceeds through one or more Resecuritization Processes (though that undertaking does not constitute a commitment by the Dealer Manager to underwrite or purchase any New Notes).

The exact amount of the Requisite Proceeds will depend on factors including:

- the percentage of Outstanding Securities of different types tendered in these Concurrent Offers (and the related cost of redeeming any Outstanding Securities that are the subject of, but are not tendered in, these Concurrent Offers at par plus accrued interest and accrued carry-over interest);

- the cost of redeeming any other securities issued under the relevant Outstanding Indenture (as described in the relevant annex, if applicable to the Concurrent Offers being settled), which are being called at par plus accrued interest and, if applicable, accrued carry-over interest;

- final amounts owed or receivable upon wind up of derivative arrangements described under the heading "Other Obligations" in the annex relating to each of these Concurrent Offers;

- final amounts owed pursuant to tax provisions described under the heading "Other Obligations" in the annex relating to each of these Concurrent Offers;

- the final amount of expenses related to these Concurrent Offers and the related Resecuritization Process (including the Dealer Manager's fees in respect of this Offer and the New Notes offering); and

- the final costs of funding a reserve account and a capitalized interest account in respect of the New Notes issued in this Resecuritization Process.

Funds in the accounts that are maintained under, and subject to the lien of, the Existing Indenture will be transferred to us in connection with our acquisition of the Eligible Underlying Assets. Any accounts that are maintained under the Existing Indenture that are not subject to the lien of the Existing Indenture will remain with the Existing Issuer.

**Excess Proceeds**

If a Resecuritization Process results in proceeds in excess of the Requisite Proceeds (the Excess Proceeds), we will apply the Excess Proceeds to increase the cash consideration included in the Subordinate Notes Total Consideration (and, if applicable, the Senior Notes Total Consideration), as described below, and will extend the Expiration Date applicable to the untendered Existing Subordinate Notes (and, if applicable, untendered Existing

Senior Notes) by no less than 10 business days but will not delay settlement in respect of tenders of Existing Notes received prior to the date of such extension (so that any additional Existing Notes received during the extension period will be separately settled).

The Excess Proceeds will first be applied to increase the cash consideration included in the Subordinate Notes Total Consideration by up to $70 per $1,000 principal amount of Existing Subordinate Notes accepted in this Offer (the amount that would cause the total notional amount of the Subordinate Notes Total Consideration to be increased up to $820 per $1,000 principal amount, although the value of the Subordinate Notes Total Consideration, if so increased, would remain significantly less than such notional amount). If the Excess Proceeds are sufficient to fund an increase of greater than $70 in cash consideration per $1,000 principal amount of Existing Subordinate Notes accepted in this Offer, any Excess Proceeds in excess of the total amount of such increase will be used to increase the cash consideration included in each of the Senior Notes Total Consideration and the Subordinate Notes Total Consideration by the same incremental amount per $1,000 principal amount of Existing Senior Notes and Existing Subordinate Notes accepted in this Offer, respectively. There can be no assurance that any Excess Proceeds will be obtained.

In the extremely unlikely event that Excess Proceeds were available in an amount sufficient to increase the Senior Notes Total Consideration or Subordinate Notes Total Consideration in respect of all Concurrent Offers being settled together at a given Settlement Date (valuing New Class B Notes and New Class C Notes included in the Total Subordinated Notes Consideration based on their estimated market value for these purposes) to their par amount, plus accrued but unpaid interest, any amount above that level would be retained by the Outstanding Security Issuers.

**Agreement with Issuers of Outstanding Securities**

Each Outstanding Security Issuer has entered into a contract with the Dealer Manager pursuant to which it has agreed to cooperate in the implementation of the Concurrent Offers as described in the Statements, including through making arrangements for sale and transfer of the Underlying Assets on the terms contemplated by the Statements, cooperating in arrangements for the release of liens on the Underlying Assets and other appropriate actions.

**Conditions to the Offer to Purchase and Consent Solicitation**

Notwithstanding any other provision of this Offer, our obligation to accept for purchase Existing Notes validly tendered (and not validly withdrawn) pursuant to this Offer is subject to and conditioned upon the satisfaction of the Minimum Tender Condition, the Marketing Condition, the Financing Condition and the conditions set forth under "—General Conditions" below.

If the conditions to this Offer are satisfied on the Expiration Date, our obligation to accept for payment, and to pay for, any Existing Notes validly tendered on or prior to the Expiration Date thereafter will only be conditioned upon the closing of the New Notes offering and the closing of the arrangements made for monetization or exchange of any Ineligible Underlying Assets.

We may waive any of the conditions of the Offer to Purchase and the Consent Solicitation, in whole or in part, at any time, except that receipt of the Requisite Consents is required for the Proposed Amendments.

*Minimum Tender Condition*

This Offer is subject to the condition that (a) at least 95% of the outstanding aggregate principal amount of Existing Senior Notes are tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline and (b) at least 99% of the outstanding aggregate principal amount of Existing Subordinate Notes are tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline. If, after the applicable Withdrawal Deadline, any Existing Notes validly tendered in this Offer are subsequently selected for mandatory redemption (pursuant to mandatory cash flow redemption provisions under the Outstanding Indenture), those Existing Notes will continue to be included in calculating whether the Minimum Tender Condition is met.

*The Financing Condition*

We will not accept any Existing Notes tendered in this Offer unless this Offer is selected on an Offer Selection Date and we successfully enter into contracts, including a note purchase agreement in respect of the New Class A Notes, that provide for delivery to us of the Requisite Proceeds through the Resecuritization Process, and will not settle this Offer unless we obtain the Requisite Proceeds through the Resecuritization Process. The note purchase agreement in respect of the New Class A Notes will be subject only to terms and conditions that are customary for public underwritings. We will limit the amount of Underlying Assets in respect of which we pursue a Resecuritization Process at any time (and will not initially proceed with Concurrent Offers that would cause the total principal amount and accrued interest of Underlying Assets (as set forth above under "—Offer Priority") securing the related Outstanding Securities to exceed the Reference Size).

*The Marketing Condition*

We will not be obligated to proceed with any Resecuritization Process if we are advised by the Dealer Manager that, in its reasonable judgment based on prevailing market conditions, it is not reasonably likely that the related Eligible Underlying Assets could be securitized in a manner that would provide the Requisite Proceeds (as defined below) for the relevant Concurrent Offers.

*General Conditions*

This Offer is also subject to the conditions that:

(1) the Supplemental Indenture implementing the Proposed Amendments shall have been duly executed and delivered promptly following the Offer Selection Date on which this Offer is selected to proceed and remain in full force and effect thereafter; and

(2) none of the following conditions shall have occurred on or after the date of this Offer to Purchase:

(a) there shall have been instituted, threatened or be pending any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person, in connection with any Concurrent Offer, that is, or is reasonably likely to be, materially adverse to the conduct and consummation of the Concurrent Offers or the Resecuritization Process related to this Offer or the value of the related Underlying Assets or New Notes;

(b) there shall have been (i) any statute, rule, regulation, judgment, order, injunction, notice or communication promulgated, entered, enforced, enacted, issued or deemed applicable by any domestic or foreign federal, state or municipal governmental authority or court which directly or indirectly (A) prohibits, or makes illegal the acceptance for payment, payment for or purchase of some or all of the Outstanding Securities or the consummation of any Concurrent Offer; (B) renders us unable to accept for payment, pay for or purchase some or all of the Outstanding Securities; or (C) imposes or confirms material limitations on the scope, validity or effectiveness of our ability to acquire or hold or to exercise full rights of ownership of the Outstanding Securities; or (ii) any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person seeking similar relief;

(c) the trustee under any Outstanding Indenture shall have objected in any respect to or taken any action that is, or is reasonably likely to be, materially adverse to the conduct and consummation of the Concurrent Offers or the Resecuritization Process related to this Offer or the value of the related Underlying Assets or New Notes, or shall have taken any action that challenges the validity or effectiveness of the procedures used by us in soliciting the Consents (including the form thereof) or in the making of this Offer or the acceptance of, or payment for, the Outstanding Securities or the Consents;

(d) any condition to settlement of a Concurrent Offer that is being funded through the same Resecuritization Process as this Offer shall fail to be met; or

(e) there shall have occurred (i) any general suspension of, or shortening of hours for, or limitation on prices for, trading in securities in the United States securities or financial markets, (ii) a material impairment in the United States trading market for debt securities, (iii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory), (iv) any limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, or other event that might affect the extension of credit by banks or other lending institutions, (v) a commencement of a war or armed hostilities or other national or international calamity directly or indirectly involving the United States or (vi) in the case of any of the foregoing existing on the date hereof, a material acceleration or worsening thereof.

The conditions to this Offer are solely for our benefit and may be asserted or waived by us in our discretion.

**Offering Restrictions**

Holders that are eligible to participate in the Settlement Offer described under "Notice Regarding Settlements" are not eligible to participate in this Offer and are excluded from this Offer, whether they hold Existing Senior Notes or Existing Subordinated Notes.

There are no other initial limitations on holders of Existing Senior Notes that may participate in this Offer, provided that this Statement constitutes neither an offer to purchase or exchange Existing Notes nor a solicitation of Consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable securities or blue sky laws.

To facilitate compliance with state securities and blue sky laws, holders of Existing Subordinate Notes must meet the eligibility requirements set forth in Schedule I in order to participate in this Offer.

The Letter of Transmittal for this Offer will contain a representation required of all Existing Subordinate Note holders tendering in this Offer as to their eligibility. If you hold Existing Subordinate Notes but are not eligible to participate in this Offer, please contact the Dealer Manager.

If we become aware of any jurisdiction where the making of the Offer to Purchase or the Consent Solicitation would not be in compliance with applicable laws, we will make a good faith effort to comply with any such laws or may seek to have such laws declared inapplicable to the Offer to Purchase and the Consent Solicitation. If, after such good faith effort, we cannot comply with any such applicable laws, the Offer to Purchase or the Consent Solicitation will not be made to (nor will tenders or Consents be accepted from or on behalf of) the holders of Existing Notes residing in each such jurisdiction.

**Certain ERISA Considerations**

Each holder tendering Existing Subordinate Notes will, by doing so, represent and warrant that it is not a Benefit Plan Investor unless it has affirmatively indicated otherwise in its Letter of Transmittal (including any Letter of Transmittal deemed submitted by an Agent's Message). A "Benefit Plan Investor" is any (a) employee benefit plan subject to Title I of ERISA, (including without limitation, pension plans), (b) plan to which Section 4975 of the Code, applies (including without limitation, individual retirement accounts and Keogh plans) or (c) entity whose underlying assets include plan assets by reason of investment in such entity by any plan described in clause (a) or (b) (including without limitation, bank collective investment funds and insurance company general accounts). This indication is required in order to allow us to gather information that we need for compliance purposes, and, in particular, to determine the aggregate principal amount of Existing Subordinate Notes tendered by Benefit Plan Investors. Each holder tendering Existing Subordinates Notes that is a Benefit Plan Investor will, by doing so, also represent and warrant that our acceptance of such tender will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code.

**Redemption of Existing Notes not Tendered**

If this Offer is consummated, the Existing Note Issuer will concurrently call for redemption all Existing Notes not tendered in this Offer, at a redemption price equal to the principal amount of such Existing Notes, plus accrued but unpaid interest (including carry-over interest, where applicable) to, but not including, the redemption date. The redemption date will be the first date practicable, taking contractual terms of such Existing Notes into account. This Statement does not constitute a call for redemption.

If you are a holder of Existing Notes that are taxable auction rate securities, there may be carry-over interest accrued in respect of such Existing Notes. Generally, "carry-over interest" means, with respect to any series of Existing Notes that are taxable auction rate securities, for any auction period, the excess of the amount of interest that would have accrued on such series during such auction period had interest been calculated without regard to the net loan rate interest rate limitation set forth in the applicable Outstanding Indenture over the amount of interest on such series calculated with respect to such auction period based on the net loan rate, together with the unpaid portion of any such excess from prior auction periods, including interest thereon. If you are a holder of Existing Notes that are taxable auction rate securities, you are advised to contact the Trustee identified in the covering term sheet to determine the amount of any accrued and unpaid carry-over interest applicable.

Accrued but unpaid carry-over interest will be required to be paid as part of the redemption price in the case of taxable auction rate securities that are optionally redeemed, but no payment in respect of carry-over interest will be made for any Existing Notes accepted in this Offer.

**Redemption of Other Securities**

If this Offer is consummated, the Outstanding Security Issuers in respect of whose Outstanding Securities Concurrent Offers are being settled at the same time (including the Existing Note Issuer) will concurrently call for redemption all other securities issued under the relevant Outstanding Indentures (including any Outstanding Securities that are the subject of, but are not tendered in, the other Concurrent Offers being settled), at a redemption price equal to the principal amount of such securities, plus accrued but unpaid interest (including carry-over interest, as described above under "—Redemption of Existing Notes not Tendered," where applicable) to, but not including, the redemption date. The redemption date will be the first date practicable, taking contractual terms of such other securities into account. This Statement does not constitute a call for redemption.

**Citi Note Election**

Immediately following the Expiration Date, holders whose Existing Senior Notes have been accepted for purchase in this Offer may, at their option, elect (the Citi Note Election) to apply a portion of the cash they are entitled to receive, in an amount equal to the Citi Note Cash Price specified in the covering term sheet, to purchase an aggregate principal amount of Citi Notes (senior unsecured notes of Citigroup Inc.) equal to the Citi Note Principal Amount specified in the covering term sheet, so that they would receive Citi Notes in lieu of a portion of the cash otherwise deliverable to them at settlement. The ratio of the Citi Note Cash Price to the Citi Note Principal Amount specified in the covering term sheet reflects an offering price of 90% of principal amount for the Citi Notes.

**In order to be eligible to make a Citi Note Election (and thereby purchase Citi Notes) holders must indicate their nonbinding interest in doing so at the time they tender their Existing Senior Notes.** Such an indication of interest will not constitute an actual Citi Note Election, however. A Citi Note Election may only be made during the Citi Note Election Period, which will commence the day after the Expiration Date and be open for three business days (November 7, 2008 through and including November 11, 2008, unless amended by us). Holders may, at their option, tender their Existing Senior Notes without making a Citi Note Election and without purchasing any Citi Notes.

Citigroup Inc. will announce the final terms of the Citi Notes by issuing a press release on the Citi Notes Terms Announcement Date (the second business day prior to the Expiration Date, which will be November 4, 2008, unless the Expiration Date is extended by us). To make an effective Citi Note Election (and thereby purchase Citi Notes), holders that previously indicated their nonbinding interest at the time they tendered their Existing Senior Notes (and

whose Existing Senior Notes have been accepted for purchase) must affirmatively accept these terms during the Citi Note Election Period.

If any holder whose Existing Senior Notes have been accepted in this Offer either chooses not to make or fails to effectively make a Citi Note Election during the Citi Note Election Period (after previously having entered a timely nonbinding indication of interest), that holder will receive the Senior Notes Total Consideration in cash (or that amount minus the Consent Payment if that holder tendered after the Consent Date) and will not receive any Citi Notes, notwithstanding any prior indication of interest.

If, after the final terms of the Citi Notes have been announced, we extend the Expiration Date by more than two business days, the final terms of the Citi Notes will be reset on the second business day preceding the new Expiration Date.

Certain terms of the Citi Notes are described in the preliminary prospectus attached to this Statement as Exhibit 2. The Citi Notes will bear interest at a floating rate equal to 3-Month LIBOR (as defined in the attached preliminary prospectus) plus a specified spread and will mature on the date seven years from their issue date or such other date as is announced in conjunction with the pricing of the Citi Notes.

Holders making a Citi Note Election will receive cash consideration at settlement plus a principal amount of Citi Notes that will be equal to the principal amount of the Existing Senior Notes they have tendered (plus accrued interest). The interest rate borne by the Citi Notes will be set at a level expected (based on conditions prevailing at the time the rate is set) to cause them to trade (to the extent to which any trading occurs) at a significant discount to their face value and initially at a market price that approximates the cash paid for such Citi Notes and therefore the Citi Note Election, when compared to taking all cash consideration, is not intended to increase the total value offered to participating holders of Existing Senior Notes. Holders that make a Citi Note Election and hold the resulting Citi Notes to maturity will, however, ultimately receive cash consideration at settlement and a payment of principal at the maturity of the Citi Notes that together are equal to the principal amount of the Senior Notes they have tendered plus accrued interest (assuming the Citi Notes perform in accordance with their terms). See "Risk Factors—The New Class B Notes and New Class C Notes offered as part of the Subordinate Notes Total Consideration and the Citi Notes offered under the Citi Note Election are all intended to trade at prices significantly below par or face value." Furthermore, it is anticipated that the Citi Notes will be issued with original issue discount. See "Certain U.S. Federal Income Tax Consequences—Tax Consequences to Tendering U.S. Holder of Existing Senior Notes" in this Statement and "United States Federal Income Tax Considerations—United States Holders—Original Issue Discount" in the preliminary prospectus attached to this Statement as Exhibit 2.

Citigroup Inc.'s obligation to issue the Citi Notes is conditioned upon receipt of the Citi Note Cash Price, closing of this Offer, Citi's performance as placement agent in connection with the Citi Notes under an agency agreement that is subject to customary terms and conditions, and the inapplicability of the force majeure and illegality clauses described under the heading "Plan of Distribution" in the preliminary prospectus attached to this Statement as Exhibit 2.

**Citigroup Inc. is not affiliated with us, is not making this Offer, will not have any obligation under the New Notes and did not prepare and is not responsible for this Statement. We and the Outstanding Security Issuers will not have any obligation under the Citi Notes and we did not prepare and are not responsible for the preliminary prospectus relating to the Citi Notes, which has been provided by Citigroup Inc. and is attached to this Statement solely for your convenience. The Citi Notes preliminary prospectus is not part of this Statement and is not incorporated by reference into this Statement. The information regarding the Citi Notes in this Statement was provided by Citigroup Inc. and we and the Outstanding Security Issuers have no responsibility for such information. The Citi Notes are being offered exclusively by Citigroup Inc. pursuant to the preliminary prospectus attached hereto as Exhibit 2. Neither we nor any Outstanding Security Issuer are offering or soliciting offers for the Citi Notes.**

**Offeror**

We are Leon Higher Education Authority, Inc., a nonprofit corporation organized in 2005 under the Texas Non-Profit Corporation Act, located at 2600 Washington Avenue, P.O. Box 1308, Waco, Texas 76703, Telephone (254) 753-0915.

## PROPOSED AMENDMENTS TO THE EXISTING INDENTURE

In conjunction with the Offer to Purchase, we are soliciting Consents to Proposed Amendments to the Existing Indenture under which the Existing Senior Notes and the Existing Subordinate Notes were issued. We are seeking the Proposed Amendments in order to modify the terms of the Existing Indenture to facilitate defeasance of the Existing Indenture.

The adoption of the Proposed Amendments requires the receipt of Consents (the "Requisite Consents") from the holders of such classes and principal amounts of outstanding Existing Notes as are identified as constituting the Requisite Consents in the annex hereto that is identified in the covering term sheet, as well as the consents of any other parties identified in that annex as necessary. If the Requisite Consents have been received prior to an Offer Selection Date and this Offer is selected to proceed, we will execute and deliver, and seek to cause the Existing Note Issuer and Trustee to execute and deliver, a supplemental indenture (the "Supplemental Indenture") to the Existing Indenture in order to implement the Proposed Amendments. The Supplemental Indenture will become effective upon execution by the Existing Note Issuer and the Trustee, but if this Offer is not consummated, the Proposed Amendments will retroactively become null and void from the time of their adoption. If this Offer is terminated or withdrawn, the Proposed Amendments will have no effect on the Existing Indenture, the Existing Notes or holders of Existing Notes.

If adopted, the Proposed Amendments and the equivalent amendments being sought in the other Concurrent Offers will amend the Outstanding Indentures in respect of which they are adopted (in the case of the Proposed Amendments, the Existing Indenture) as follows:

- Under the terms of each Outstanding Indenture, if the applicable Outstanding Security Issuer pays or causes to be paid, or there shall otherwise be paid, to the holders of securities outstanding under such Outstanding Indenture and any other secured obligation thereunder the money due thereon, at the times and in the manner stipulated in such Outstanding Indenture, the holders of such securities and other secured obligations shall cease to be entitled to any lien, benefit, or security under such Outstanding Indenture, and all covenants, agreements, and obligations of the Outstanding Security Issuer to the holders of such obligations shall thereupon cease, terminate, and become void and be discharged and satisfied.

- In addition, under the terms of each Outstanding Indenture, all of the securities issued thereunder are, prior to the stated maturity or earlier redemption thereof, deemed to have been paid under the applicable Outstanding Indenture for purposes of the previous paragraph if there has been deposited with the applicable trustee (i) either money (fully insured by the Federal Deposit Insurance Corporation or fully collateralized by governmental obligations) or (ii) government obligations, that in either case, are sufficient to pay the principal and the interest on the securities outstanding under the applicable Outstanding Indenture to become due on the redemption date or stated maturity thereof, as the case may be, and the Outstanding Security Issuer has given irrevocable written instructions to the applicable trustee to call for redemption the securities outstanding under such Outstanding Indenture. Under the Outstanding Indentures, "governmental obligations" mean and include only non-callable direct obligations of the Department of the Treasury of the United States of America, and such governmental obligations are required to be certified by an independent public accounting firm of national reputation to be of such amounts, maturities, and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make the payments required under the applicable Outstanding Indenture, and which obligations have been deposited in an escrow account which is irrevocably pledged as security for the securities outstanding under such Outstanding Indenture.

- Pursuant to each supplemental indenture to the Outstanding Indentures, the terms of each Outstanding Indenture described in the previous paragraph will be amended to delete the requirement that "money"

deposited with the applicable trustee for a defeasance be "fully insured by the Federal Deposit Insurance Corporation or fully collateralized by governmental obligations" as described above. If the supplemental indenture to an Outstanding Indenture is executed, all of the securities issued under such Outstanding Indenture will be, prior to the stated maturity or earlier redemption thereof, deemed to have been paid under such Outstanding Indenture for purposes of a defeasance thereof if there is deposited with the applicable trustee money that is sufficient to pay the principal and the interest on the securities outstanding under the applicable Outstanding Indenture to become due on the redemption date or stated maturity thereof, as the case may be, and that deposit of money will no longer be required to be fully insured by the Federal Deposit Insurance Corporation or fully collateralized by governmental obligations.

- In addition, each of the Outstanding Indentures described in the attached annexes labeled Annex 1, Annex 5 and Annex 10, respectively, contain a provision that provides that if the applicable Outstanding Security Issuer uses for a deposit or payment for a defeasance (as described above) money (or government obligations purchased with money) that neither (i) are the proceeds of a refinancing that are earmarked specifically for the purpose of refunding the applicable securities outstanding under the applicable Outstanding Indenture and that are paid directly by the refinancing lender (or underwriter on behalf of the refinancing debt) to the applicable trustee under such Outstanding Indenture for the benefit of such outstanding securities being refunded nor (ii) has been held continuously in the trust estate created under such Outstanding Indenture for a period of 125 consecutive days preceding a deposit or payment for a defeasance during which time the Outstanding Security Issuer has not become the subject as debtor of a bankruptcy proceeding or any similar insolvency or receivership proceeding, then such deposit or payment will not have the effect of releasing the lien of such Outstanding Indenture, and such outstanding securities shall remain outstanding, until 125 consecutive days has passed from and after such deposit or payment and during such time the Outstanding Security Issuer has not become the subject as debtor of a bankruptcy proceeding or any similar insolvency or receivership proceeding. If the supplemental indentures to these Outstanding Indentures are executed, the requirements described in this paragraph will be deleted in their entirety from those Outstanding Indentures, and all applicable available funds pledged under such Outstanding Indentures (regardless of how long such amounts have been held in the related trust estate) will be available for a deposit or payment to effect a defeasance of the applicable Outstanding Indenture.

- Finally, each of the Outstanding Indentures described in the attached annexes labeled Annex 2, Annex 3, Annex 4, Annex 6, Annex 8, Annex 11 and Annex 12, respectively, contain a provision that provides that as long as assets remain in the trust estate and there exists unpaid carry-over interest, then the Outstanding Indenture will not be satisfied until all remaining assets in the trust estate are applied to pay such unpaid carry-over interest. Under each such Outstanding Indenture, however, with respect to the taxable auction rate securities for which there is accrued but unpaid carry-over interest, that accrued but unpaid carry-over interest is required to be paid in connection with any optional redemption of such securities. The required payment of unpaid carry-over interest in connection with any optional redemption of such securities will not be amended by any of the supplemental indentures. In addition, under each such Outstanding Indenture, the amount for the payment of any such accrued but unpaid carry-over interest is required to be part of the amount deposited with the applicable trustee under the related Outstanding Indenture to effect a defeasance as described above. If the supplemental indentures to these Outstanding Indentures are executed, the provisions described in the first sentence of this paragraph will be deleted in their entirety from those Outstanding Indentures. The purpose of deleting these provisions is to clarify that (i) any securities outstanding under the applicable Outstanding Indenture that have accrued but unpaid carry-over interest will be, prior to the stated maturity or earlier redemption thereof, deemed to have been paid under such Outstanding Indenture for purposes of a defeasance if there has been deposited with the applicable trustee either money or government obligations, that in either case, are sufficient to pay the principal and the interest (including any accrued but unpaid carry-over interest) thereon to become due on the redemption date or stated maturity thereof, as the case may be and (ii) holders of Outstanding Securities that voluntarily surrender their Outstanding Securities for cancellation under the respective Outstanding Indenture will

have waived any right to receive carry-over interest that may have accrued in respect of their Outstanding Securities and will not receive any such amounts regardless of whether any assets remain in the trust estate under the applicable Outstanding Indenture.

- Each applicable trustee, at the direction and request of each applicable Outstanding Security Issuer, hereby causes notice of the supplemental indentures described herein to be provided to each existing holder of securities outstanding under each Outstanding Indenture. Copies of the supplemental indentures are on file with the applicable trustees for inspection by the holders of securities outstanding under the Outstanding Indentures.

**In the Consent Solicitation, we are seeking Consents to all of the Proposed Amendments with respect to each series of Existing Notes. The valid tender by a holder of Existing Notes pursuant to this Offer will be deemed to constitute the giving of a Consent by such holder to the Proposed Amendments. Such actions will also constitute the waiver of any right to revoke such Consent from and after the Withdrawal Date. If the Supplemental Indenture is executed and this Offer is consummated, holders who do not tender on or prior to the Expiration Date will be bound thereby even though they did not consent to the Proposed Amendments and will not receive the Consent Payment.**

## WAIVER

**By tendering Existing Notes, holders release and discharge us, the Existing Note Issuer, the Master Servicer, the Trustee and all of our and their respective present or future directors, officers or employees, from any liability or claim existing on the Settlement Date that is based on or related to the Existing Indenture, the Existing Notes, the Proposed Amendments or the Underlying Assets, and waive any related claim. The release, discharge and waiver described in this paragraph are part of the consideration tendered by holders participating in this Offer and are subject to, and effective upon, the acceptance of and payment for the Existing Notes. Insofar as the release, discharge and waiver applies to liabilities arising under federal securities laws, the Securities and Exchange Commission has expressed the view that such waivers and releases may be against public policy, and are, therefore, unenforceable. Neither the Dealer Manager nor any of its affiliates is seeking any release, discharge or waiver in connection with this Offer.**

## EXPIRATION; EXTENSION; AMENDMENT; TERMINATION

The Offer to Purchase will expire at 8:00 a.m., New York City time, on November 6, 2008, unless extended by us. The Consent Solicitation will expire at 5:00 p.m., New York City time, on October 17, 2008, unless extended by us.

Although we do not presently intend to extend the Expiration Date, we reserve the right to extend this Offer for such period or periods as we may determine, from time to time, by giving written or oral notice to the Depositary and making a public announcement by press release by 9:00 A.M., New York City time, on the next business day following the previously scheduled Expiration Date. We may extend the Expiration Date applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other. During any extension of this Offer, all Existing Notes previously tendered will remain subject to this Offer.

To the extent it is legally permitted to do so, we reserve the absolute right to (i) waive any condition to this Offer (except that the receipt of the Requisite Consents is required by the Existing Indenture for the approval of the Proposed Amendments and may not be waived), (ii) amend any of the terms of this Offer and (iii) modify the Senior Notes Total Consideration, the Subordinate Notes Total Consideration or the Consent Payment. Any amendment to this Offer will apply to all Existing Notes tendered, regardless of when or in what order such Existing Notes were tendered. If we make a material change in the terms of this Offer, we will disseminate additional offering materials or, if appropriate, issue a press release setting forth such changes, and will extend this Offer, in each case, to the extent required by law.

We reserve the right to terminate this Offer at any time if the conditions hereto are not met. In the event that we terminate this Offer, we will give immediate notice to the Depositary, and all Existing Notes theretofore tendered pursuant to this Offer will be returned promptly to the tendering holders thereof.

## PROCEDURES FOR TENDERING EXISTING NOTES AND DELIVERING CONSENTS

The tender of Existing Notes pursuant to this Offer will be deemed to constitute a delivery of a Consent with respect to the Existing Notes tendered. Any holder who tenders Existing Notes pursuant to this Offer must also deliver a Consent to the Proposed Amendments and holders must tender their Existing Notes in order to deliver a Consent. A holder may not revoke a Consent without withdrawing the previously tendered Existing Notes to which the Consent relates. A defective tender of Existing Notes (which defect is not waived by us or cured by the holder) will not be counted for purposes of determining whether the Minimum Tender Condition has been met or the Requisite Consents have been obtained therefrom and will not entitle the holder thereof to receive the Senior Notes Total Consideration or Subordinate Notes Total Consideration or the Consent Payment.

Any beneficial owner whose Existing Notes are held in the name of a broker, dealer, commercial bank, trust company or other nominee and who wishes to tender Existing Notes and deliver Consents should contact such holder promptly and instruct such holder to tender Existing Notes and deliver Consents on such beneficial owner's behalf.

### Tenders of and Consents Regarding Existing Notes

For a holder to validly tender Existing Notes pursuant to this Offer and deliver Consents pursuant to the Consent Solicitation, (1) a properly completed and duly executed Letter of Transmittal (or a facsimile thereof), together with any signature guarantees, or, in the case of a book-entry transfer, an Agent's Message (as defined below), and any other documents required by the instructions to the Letter of Transmittal, must be received by the Depositary at its address set forth on the back cover of this Statement and (2) either certificates for tendered Existing Notes must be received by the Depositary at such address or such Existing Notes must be transferred pursuant to the procedures for book-entry transfer described below and a confirmation of such book-entry transfer must be received by the Depositary, in each case, on or prior to the Expiration Date. However, Consent Payments will be made with

respect to such tendered Existing Notes only if Consents are delivered on or prior to the Consent Date. **LETTERS OF TRANSMITTAL AND EXISTING NOTES SHOULD BE SENT ONLY TO THE DEPOSITARY, NOT TO US, THE OUTSTANDING SECURITY ISSUER, THE TRUSTEE, DTC, THE INFORMATION AGENT OR THE DEALER MANAGER.**

**Delivery of Consents and Letters of Transmittal**

DTC has authorized participants that hold Existing Notes on behalf of beneficial owners of Existing Notes through DTC to tender their Existing Notes and consent to the Proposed Amendments as if they were holders. To effect a tender and consent, DTC participants should transmit their acceptance to DTC through the DTC Automated Tender Offer Program (ATOP), for which the transaction will be eligible, and follow the procedure for book-entry transfer set forth below.

**A Letter of Transmittal is not required to be submitted for tenders made through ATOP (because a tender made through ATOP will be deemed to constitute the delivery of a Letter of Transmittal).**

The method of delivery of certificates for Existing Notes, Consents and Letters of Transmittal and all other required documents to the Depositary, including delivery through DTC and acceptance through ATOP, is at the election and risk of the holder tendering Existing Notes and delivering Consents. If such delivery is by mail, it is suggested that the holder use properly insured, registered mail, return receipt requested, and that the mailing be made sufficiently in advance of the Consent Date or Expiration Date, as the case may be, to permit delivery to the Depositary prior thereto.

**Special Procedures Regarding the Citi Note Election**

If a holder of Existing Senior Notes wishes to be eligible to make a Citi Note Election (and purchase Citi Notes), such holder must indicate its nonbinding interest in doing so at the time it tenders its Existing Senior Notes, by following the procedures announced by DTC (such holder, an "Election Eligible Senior Note Holder"). Such nonbinding indication of interest will not obligate an Election Eligible Senior Note Holder to purchase Citi Notes.

Prior to the Citi Note Election Period, Citigroup Inc. will provide by press release the final terms of the Citi Notes. Election Eligible Senior Note Holders whose Existing Senior Notes have been accepted for purchase will need to read and review these final terms before making a Citi Note Election.

In order to make a Citi Note Election and thereby purchase Citi Notes, an Election Eligible Senior Note Holder whose Existing Senior Notes have been accepted for purchase **must take a second step during the Citi Note Election Period**, which will commence the day after the Expiration Date and be open for three business days (November 7, 2008 through and including November 11, 2008, unless amended by us). In this second step, such Election Eligible Senior Note Holder commits to purchase the Citi Notes. Indicating a nonbinding interest at the time an Election Eligible Senior Note Holder tenders its Existing Senior Notes will not be sufficient to effect this second step, and this nonbinding interest will not require such holder to take this second step.

In order to take this second step (and thereby purchase Citi Notes), special procedures will be announced by DTC. The cost of purchasing the Citi Notes will be deducted from the cash consideration that a holder would otherwise be entitled to receive and such holder will receive on the Settlement Date the net amount of cash consideration plus the Citi Notes purchased.

If an Election Eligible Senior Note Holder whose Existing Notes have been accepted for purchase either chooses not to take or fails to effectively take this second step during the Citi Note Election Period, that holder will receive the Senior Notes Total Consideration in cash (or that amount minus the Consent Payment if that holder tendered after the Consent Date) and will not receive any Citi Notes, notwithstanding any prior indication of interest.

**Book-Entry Transfer**

The Depositary will establish an account with respect to the Existing Notes at DTC for purposes of this Offer, and any financial institution that is a participant in DTC may make book-entry delivery of the Existing Notes by

causing DTC to transfer such Existing Notes into the Depositary's account in accordance with DTC's procedures for such transfer. DTC will then send an Agent's Message to the Depositary. The confirmation of a book-entry transfer into the Depositary's account at DTC as described above is referred to herein as a "Book-Entry Confirmation." Delivery of documents to DTC does not constitute delivery to the Depositary.

The term "Agent's Message" means a message transmitted by DTC to, and received by, the Depositary and forming a part of the Book-Entry Confirmation, which states that DTC has received an express acknowledgment from the participant in DTC described in such Agent's Message, stating the aggregate principal amount of Existing Notes that have been tendered by such participant pursuant to this Offer and that such participant has received the Statement and agrees to be bound by the terms of this Offer and that we may enforce such agreement against such participant.

**Signature Guarantees**

Signatures on all Consents and Letters of Transmittal must be guaranteed by a participant in a recognized Medallion Signature Program (a "Medallion Signature Guarantor"), unless the Existing Notes tendered thereby are tendered (i) by a registered holder of Existing Notes (or by a participant in DTC whose name appears on a security position listing such participant as the owner of such Existing Notes), or (ii) for the account of a member firm of a registered national securities exchange, a member of The Financial Industry Regulatory Authority ("FINRA") or a commercial bank or trust company having an office in the United States (each of the foregoing being referred to as an "Eligible Institution"). If the Existing Notes are registered in the name of a person other than the signer of the Letter of Transmittal or if Existing Notes not tendered are to be returned to a person other than the registered holder, then the signatures on the Consents and Letters of Transmittal accompanying the tendered Existing Notes must be guaranteed by a Medallion Signature Guarantor as described above.

**No Guaranteed Delivery**

There are no guaranteed delivery provisions provided for by us in conjunction with this Offer under the terms of this Statement or any other of the Offer Documents. Holders must tender their Existing Notes in accordance with the procedures set forth under "Procedures for Tendering Existing Notes and Delivering Consents."

**Other Matters**

Notwithstanding any other provision of this Offer, payment of the Senior Note Consideration or Subordinate Note Consideration in exchange for Existing Notes tendered and accepted for purchase pursuant to this Offer, and payment of the Consent Payment with respect to Consents that are validly delivered simultaneously with the tendered Existing Notes through the Consent Date, will occur only after timely receipt by the Depositary of the tendered Existing Notes (or a Book-Entry Confirmation with respect to such Existing Notes), together with a properly completed and duly executed Letter of Transmittal in proper form (or a manually signed facsimile thereof) or, in the case of a book-entry transfer, an Agent's Message, and any other required documents.

Tenders of Existing Notes and deliveries of Consents pursuant to the procedures described above, and acceptance thereof by us, will constitute a binding agreement between the tendering and consenting holder and us upon the terms and subject to the conditions of this Offer as set forth in this Offer to Purchase.

**All questions as to the form of all documents and the validity (including time of receipt) and acceptance of all tenders of Existing Notes and deliveries of Consents will be determined by us, in our sole discretion, the determination of which shall be final and binding.**

We reserve the absolute right to reject any or all tenders of Existing Notes and deliveries of Consents that are not in proper form or the acceptance of which would, in our opinion, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of any tender as to particular Existing Notes or as to delivery of accompanying Consents. Our interpretations of the terms and conditions of this Offer (including the instructions in the Letter of Transmittal) will be final and binding. Any defect or irregularity in connection with tenders of Existing Notes and accompanying deliveries of Consents must be cured within such time as we determine, unless waived by us. Tenders of Existing Notes and deliveries of Consents shall not be deemed to have been made until all defects

and irregularities have been waived by us or cured. None of us, the Depositary, the Dealer Manager, the Information Agent or any affiliate of any of them or any other person will be under any duty to give notice of any defects or irregularities in tenders of Existing Notes and accompanying deliveries of Consents, nor will such parties incur any liability to holders for failure to give any such notice.

**Backup Withholding Taxes**

Failure to submit the forms described under "Backup Withholding" in the Letter of Transmittal may result in backup withholding. For a discussion of U.S. federal income tax considerations relating to backup withholding, see "Certain U.S. Federal Income Tax Consequences—Information Reporting and Backup Withholding."

## ACCEPTANCE OF EXISTING NOTES FOR PURCHASE; PAYMENT FOR EXISTING NOTES; PAYMENT OF CONSENT PAYMENTS

Provided that the conditions to this Offer have been satisfied or waived, payment for the Existing Notes validly tendered in the Offer to Purchase and for Consents delivered in the Consent Solicitation, including payment of accrued but unpaid interest (other than carry-over interest) up to (but not including) the date of payment for such Existing Notes will be made on the Settlement Date. Holders of Existing Notes that are validly tendered prior to the Consent Date and accepted in this Offer will be entitled to receive the Total Consideration. Holders of Existing Notes that are tendered thereafter and accepted in this Offer will be entitled to receive the Total Consideration as reduced by the Consent Payment. Payment for all Existing Notes accepted will be made on the Settlement Date.

We expect that the Settlement Date will occur promptly following acceptance. However, due to the complexities inherent in releasing the liens of the Outstanding Indentures and establishing the lien of the Indenture, together with other operational complexities of this Offer, the settlement cycle may be as long as five business days. If we increase the consideration offered to holders of the Existing Subordinate Notes (and, if applicable, Existing Senior Notes) as a result of obtaining Excess Proceeds, we will extend the Expiration Date applicable to the untendered Existing Subordinate Notes (and, if applicable, untendered Existing Senior Notes) by no less than 10 business days but will not delay settlement in respect of tenders of Existing Notes received prior to the date of such extension (so that any additional Existing Notes received during the extension period will be separately settled). If this occurs, purchase of all Existing Notes accepted as of the previously scheduled Expiration Date will be settled on the previously scheduled Settlement Date (following the previously scheduled Expiration Date) without regard to such extension.

Under the terms of the Outstanding Indenture, the Existing Notes are periodically subject to mandatory redemption (in whole or in part) from excess cash flows. Existing Notes that are tendered in this Offer will remain eligible for mandatory cash flow redemption until they are accepted on the Expiration Date. To process the redemption of any Existing Notes for which a notice of redemption is issued after they have been tendered but prior to acceptance on the Expiration Date, the DTC participant through which those Existing Notes are owned should electronically withdraw those Existing Notes from this Offer (and withdrawals under these circumstances will not be precluded by passage of the Withdrawal Deadline). Existing Notes that are accepted for purchase on the Expiration Date may not be withdrawn from this Offer thereafter, even if a notice of redemption is subsequently issued in respect of those Existing Notes.

We reserve the right to waive any defect in the tender of Existing Notes and to keep this Offer open or extend the Consent Date and/or the Expiration Date.

We reserve the right, in our sole discretion, to (1) delay acceptance for purchase of Existing Notes tendered under this Offer or the payment for Existing Notes accepted for purchase (subject to Rule 14e-1 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which requires that we pay the consideration offered or return the Existing Notes deposited by or on behalf of the holders promptly after the termination or withdrawal of this Offer), or (2) terminate this Offer at any time the conditions to this Offer are not satisfied. In all cases, payment for Existing Notes accepted for purchase pursuant to this Offer will be made only after timely receipt by the Depositary (or confirmation of Book-Entry Confirmation thereof), of a properly completed and duly executed Letter of Transmittal (or a manually signed facsimile thereof) and any other documents required thereby.

For purposes of this Offer, we will be deemed to have accepted for purchase validly tendered Existing Notes (or defectively tendered Existing Notes with respect to which we have waived such defect or the holder has cured such defect) if, as and when we give oral or written notice thereof to the Depositary. Payment for Existing Notes accepted for purchase in the Offer to Purchase and Consents delivered in the Consent Solicitation on or prior to the Consent Date will be made by us by depositing such payment in cash with the Depositary, which will act as agent for the tendering and consenting holders for the purpose of receiving the Senior Note Consideration or Subordinate

Note Consideration and Consent Payment and transmitting the Senior Note Consideration or Subordinate Note Consideration and Consent Payment to such holders.

Tenders of Existing Notes and delivery of Consents pursuant to this Offer will be accepted only in principal amounts that are permitted denominations under the terms of such Existing Notes.

If, for any reason, acceptance for purchase of or payment for validly tendered Existing Notes pursuant to this Offer is delayed, or we are unable to accept for purchase or to pay for validly tendered Existing Notes pursuant to this Offer, then the Depositary may, nevertheless, on behalf of us, retain tendered Existing Notes, without prejudice to our rights described under "Expiration; Extension; Amendment; Termination" and "Conditions of the Offer to Purchase and Consent Solicitation" above and "Withdrawal of Tenders; Revocation of Consents" below, but subject further to Rule 14e-1 under the Exchange Act, which requires that we pay the consideration offered or return the Existing Notes tendered promptly after the termination or withdrawal of this Offer.

If any tendered Existing Notes are not accepted for payment for any reason pursuant to the terms and conditions of this Offer, such Existing Notes will be returned to the tendering holder thereof.

Holders of the Existing Notes tendered and accepted for payment pursuant to this Offer will be entitled to accrued but unpaid interest (other than carry-over interest) on their Existing Notes to, but not including, the Settlement Date. Under no circumstances will any additional interest be payable because of any delay by the Depositary in the transmission of funds to the holders of purchased Existing Notes or otherwise.

Holders that hold their Existing Notes through a broker, dealer, commercial bank or financial institution should consult with that institution as to whether it will charge holders any service fees in connection with this Offer. We will pay all other charges and expenses in connection with this Offer. See "Dealer Manager and Solicitation Agent; Depositary; Information Agent."

## WITHDRAWAL OF TENDERS; REVOCATION OF CONSENTS

Tenders of Existing Notes may be validly withdrawn, and Consents may be validly revoked at any time on or prior to the Withdrawal Deadline (5:00 p.m., New York City time, on October 17, 2008, as such date and time may be extended) but not thereafter. We may extend the Withdrawal Deadline applicable to each of the two types of Existing Notes (the Existing Senior Notes and the Existing Subordinate Notes) independently of each other.

A valid withdrawal of tendered Existing Notes on or prior to the applicable Withdrawal Deadline will constitute the concurrent revocation of such holder's related Consent. To revoke Consents delivered in connection with tendered Existing Notes, holders must withdraw the related tendered Existing Notes. Any Existing Notes that are not validly withdrawn on or prior to the applicable Withdrawal Deadline may not, subject to limited exceptions, be withdrawn thereafter.

A holder may not revoke a Consent without withdrawing the previously tendered Existing Notes to which such Consent relates. Tenders of Existing Notes may be validly withdrawn, and Consents may be validly revoked, at any time on or prior to the Withdrawal Date. A valid withdrawal of tendered Existing Notes effected on or prior to the Withdrawal Date will constitute the concurrent revocation of such holder's related Consent. In order for a holder to revoke a Consent, such holder must withdraw the related tendered Existing Notes on or prior to the Withdrawal Date. Any Existing Notes tendered that are not validly withdrawn on or prior to the Withdrawal Date may not, subject to limited exceptions, be withdrawn thereafter. If, after the Withdrawal Deadline, we either (i) reduce the principal amount of Existing Notes subject to this Offer or (ii) decrease the Senior Note Consideration or Subordinate Note Consideration or are otherwise required by law to permit withdrawal, then previously tendered Existing Notes may be validly withdrawn until the expiration of ten business days following the date that notice of any such reduction is first published, given or sent to holders by us. In addition, tenders of Existing Notes may be validly withdrawn if this Offer is terminated without any Existing Notes being purchased thereunder. In the event of a termination of this Offer, Existing Notes tendered pursuant to this Offer will be promptly returned to the tendering holder. Under no circumstances may Consents be revoked after the execution of the Supplemental Indenture.

For a withdrawal of a tender of Existing Notes (and the concurrent revocation of Consents) to be effective, a written or facsimile transmission notice of withdrawal must be received by the Depositary on or prior to the Withdrawal Date at its address set forth on the back cover of this Statement. Any such notice of withdrawal must (i) specify the name of the person who tendered the Existing Notes to be withdrawn, (ii) the aggregate principal amount represented by such Existing Notes and (iii) be signed by the holder of such Existing Notes in the same manner as the original signature on the Letter of Transmittal by which such Existing Notes were tendered (including any required signature guarantees), if any, or be accompanied by (x) documents of transfer sufficient to have the Trustee register the transfer of the Existing Notes into the name of the person withdrawing such Existing Notes and (y) a properly completed irrevocable proxy that authorized such person to effect such revocation on behalf of such holder. If the Existing Notes to be withdrawn have been delivered or otherwise identified to the Depositary, a signed notice of withdrawal will be effective immediately upon written or facsimile notice of withdrawal even if physical release has not yet then been effected.

Withdrawal of a tender of Existing Notes (and the concurrent revocation of Consents) may only be accomplished in accordance with the foregoing procedures.

Existing Notes validly withdrawn may thereafter be retendered (and Consents thereby given) at any time on or prior to the Expiration Date by following the procedures described under "Procedures for Tendering Existing Notes and Giving Consents"; provided, however, that if a holder's Existing Notes are not properly retendered pursuant to this Offer on or prior to the Consent Date, such holder will not receive the Consent Payment.

All questions as to the form and validity (including time of receipt) of any notice of withdrawal of a tender and revocation of Consents will be determined by us, in our sole discretion, which determination shall be final and binding. None of us, the Depositary, the Dealer Manager, the Information Agent or any affiliate of any of them or

any other person will be under any duty to give notification of any defect or irregularity in any notice of withdrawal of a tender or revocation of a Consent or incur any liability for failure to give any such notification.

If we are delayed in our acceptance for purchase of, or payment for, any Existing Notes or are unable to accept for purchase or pay for Existing Notes pursuant to this Offer for any reason, then, without prejudice to our rights hereunder, tendered Existing Notes may be retained by the Depositary on our behalf and may not be validly withdrawn (subject to Rule 14e-1 under the Exchange Act, which requires that we pay the consideration offered or return the Existing Notes deposited by or on behalf of the holders promptly after the termination or withdrawal of this Offer).

The Existing Notes are obligations of the Existing Note Issuer and are governed by the Existing Indenture. There are no appraisal or other similar statutory rights available to holders in connection with the Offer to Purchase or the Consent Solicitation.

## THE NEW NOTES

The New Notes will consist of the New Class A Notes, New Class B Notes and New Class C Notes. The New Notes issued pursuant to a given Resecuritization Process will be secured by a combined pool of all Eligible Underlying Assets related to the Concurrent Offers that were selected on the Offer Selection Date for the relevant Resecuritization Process.

The New Notes issued in different Resecuritization Processes will not be fungible with each other, will be secured by different Underlying Assets and will be issued under different indentures. The description of the New Notes in this Statement, including the preliminary offering memorandum attached as Exhibit 1, reflects the terms of the New Notes that we anticipate issuing at the Settlement Date resulting from the initial Resecuritization Process, based on assumptions described in that preliminary offering memorandum.

We will sell the New Class A Notes for cash to fund the cash payment obligations in respect of the Concurrent Offers selected for the applicable Resecuritization Process. The New Class B Notes and New Class C Notes will be issued as part of the consideration delivered to tendering holders of Outstanding Subordinate Securities (and we will not sell any New Class B Notes or New Class C Notes for cash).

The applicable Eligible Underlying Assets will be combined into a single pool of collateral for the New Notes issued on any settlement date and the applicable Ineligible Underlying Assets will be jointly monetized for Concurrent Offers with the same settlement date. As a result, tendering holders of Outstanding Subordinate Securities will receive consideration that reflects the overall composition of all Underlying Assets related to a given Resecuritization Process and not just to the Outstanding Indenture under which their Outstanding Subordinate Securities were issued. See "Risk Factors—Underlying Assets related to multiple Outstanding Indentures will be combined."

To facilitate the New Notes offering, the Master Servicer of the New Notes has agreed to receive an administration fee in respect of the New Notes (exclusive of fees payable to third parties such as subservicers and trustees) equal to 0.15% per annum of the average monthly outstanding principal balance of student loans that serve as collateral for the New Notes. In addition, after we have acquired the Underlying Assets, no additional loans will be acquired under the Indenture, except for student loans that are required to be replaced or substituted, as described in the preliminary offering memorandum attached to this Statement as Exhibit 1.

**The description of the New Notes is based upon assumptions, including that the amount of funds generated in the Resecuritization Process will equal the Requisite Proceeds and that the Concurrent Offers that are selected on the Initial Offer Selection Date will be the first through fourth Concurrent Offers listed in the Offer Priority. If either of these assumptions is inaccurate, we will circulate additional disclosure and extend related deadlines. Holders of Outstanding Securities related to the fifth through thirteenth Concurrent Offers listed in the Offer Priority should treat the preliminary offering memorandum attached hereto as Exhibit 1 as merely indicative and should review the preliminary offering memorandum applicable to their Outstanding Securities if and when available.**

If on an Offer Selection Date we select different Concurrent Offers than those assumed in the then-existing preliminary offering memorandum, we will amend this Statement to provide updated information regarding the relevant Concurrent Offers and the corresponding New Notes and announce the new Withdrawal Deadlines and Consent Dates (which will be at least 10 business days after such update) and new Expiration Dates (which will be at least 20 business days after such update).

If we extend the Expiration Date as described above, we expect to provide for two settlements in respect of the extended offer in the amended Statement containing the terms of this Offer as amended, with tenders received prior to the Consent Date being settled separately from tenders received thereafter.

**New Class B Notes**

The New Class B Notes are a class of New Notes. They will have the following characteristics:

- Size: $200 per $1,000 principal amount of Outstanding Subordinate Notes accepted in the Concurrent Offers that were selected on the Initial Offer Selection Date
- Ratings: "Aa2" from Moody's and "AA" from S&P
- Coupon: 3-Month LIBOR+2.75%
- Estimated weighted average life: 13.50 years (based on the assumptions set forth below)
- Final maturity: September 26, 2039

Interest will accrue generally on the principal balances of the New Class B Notes during three-month accrual periods and will be paid on distribution dates. On any distribution date, payments of interest on the New Class B Notes will be subordinate to the payment of interest on the New Class A Notes and, under certain conditions, to the payment of principal on the Class A notes. Interest accrued as of any distribution date but not paid on that distribution date will be due on the next distribution date, together with an amount equal to interest on the unpaid amount at the interest rate applicable to the New Class B Notes. No principal payments on the New Class B Notes will be made until the principal amount of the New Class A Notes is reduced to zero.

**The ratings indicated above have not yet been assigned. If the indicated ratings cannot be obtained, we will amend this Offer and extend the related deadlines.**

The weighted average life indicated above was computed based on an assumed 12% Constant Prepayment Rate (CPR) for Stafford/PLUS loans and a consolidation loan prepayment ramp (CLR) at a graduated level from 0% to 8% over the first 120 months and at 8% thereafter (adjusted for seasoning) for consolidation loans and other normalized assumptions. The assumptions set forth in the foregoing do not necessarily reflect historical performance and defaults and do not constitute a representation or warranty that events will occur as assumed. If different assumptions were applied, different expected weighted average life calculations would result.

Additional terms of the New Class B Notes are described in the preliminary offering memorandum attached to this Statement as Exhibit 1.

**New Class C Notes**

The New Class C Notes are a class of New Notes. They will have the following characteristics:

- Size: $350 per $1,000 principal amount of Outstanding Subordinate Notes accepted in the Concurrent Offers that were selected on the Initial Offer Selection Date
- Rating: "B3" from Moody's, "B-" from S&P or "B-" from Fitch
- Coupon: 3-Month LIBOR+3%
- Estimated weighted average life: 8.00 years (based on the assumptions set forth below)
- Final maturity: June 25, 2040

Interest will accrue generally on the principal balances of the New Class C Notes during three-month accrual periods and will be payable on each distribution date. On any distribution date, payments of interest and principal on the New Class C Notes will be subordinate to the payment of interest and required principal payments on the New Class A Notes and the New Class B Notes, and such payments will only be made to the extent that there are available funds remaining after all prior required distributions as described in the preliminary offering memorandum attached to this Statement as Exhibit 1. Interest accrued as of any distribution date but not paid on that distribution

date will be due on the next distribution date, together with an amount equal to interest on the unpaid amount at the interest rate applicable to the New Class C Notes. Generally, no amounts will be paid in respect of the New Class C Notes on a distribution date unless the specified overcollateralization amount with respect to that distribution date meets the minimum requirement, the amount on deposit in the reserve account is at required levels and there are available funds remaining after all required distributions senior in right of payment have been made, as described in the preliminary offering memorandum attached to this Statement as Exhibit 1.

It is impossible to predict the amount and timing of payments that will be received on the student loans, and consequently, when interest and principal will be paid on the New Class C Notes. See "Risk Factors—The Class C notes will not provide regular or predictable payments of interest and principal" in the preliminary offering memorandum attached to this Statement as Exhibit 1.

**The rating indicated above has not yet been assigned. If the indicated rating cannot be obtained, we will amend this Offer and extend the related deadlines.**

The weighted average life indicated above was computed based on an assumed 12% Constant Prepayment Rate (CPR) for Stafford/PLUS loans and a consolidation loan prepayment ramp (CLR) at a graduated level from 0% to 8% over the first 120 months and at 8% thereafter (adjusted for seasoning) for consolidation loans and other normalized assumptions. The assumptions set forth in the foregoing do not necessarily reflect historical performance and defaults and do not constitute a representation or warranty that events will occur as assumed. If different assumptions were applied, different expected weighted average life calculations would result.

Additional terms of the New Class C Notes are described in the preliminary offering memorandum attached to this Statement as Exhibit 1.

## CERTAIN U.S. FEDERAL INCOME TAX CONSEQUENCES

**To ensure compliance with Treasury Department Circular 230, holders are hereby notified that: (a) any discussion of U.S. federal tax issues in this Offer is not intended or written to be relied upon, and cannot be relied upon, by any taxpayer for the purpose of avoiding penalties that may be imposed on holders under U.S. tax law; (b) such discussion was written in connection with our solicitation of the tender of Existing Notes and Consents to the matters addressed herein; and (c) holders should seek advice based on their particular circumstances from an independent tax advisor.**

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

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

This discussion is based on provisions of the Code, the Treasury Regulations promulgated thereunder, and administrative and judicial interpretations of the foregoing, all as in effect as of the date hereof and all of which are subject to change, possibly with retroactive effect. This discussion does not address tax consequences to holders of the New Notes or Citi Notes, other than as they relate to the Offer to Purchase.

The preliminary offering memorandum relating to the New Notes, attached to this Statement as Exhibit 1, states that in the opinion of our counsel, Squire, Sanders & Dempsey L.L.P., the New Class B Notes will be characterized as debt for U.S. federal income tax purposes. The preliminary offering memorandum also states that we intend to treat the New Class C Notes as debt for U.S. federal income tax purposes, and that holders of New Class B Notes and New Class C Notes agree, by accepting the Notes, to treat them as indebtedness for U.S. federal income tax purposes. We assume for the remainder of the discussion below that the New Class B Notes and New Class C Notes will be treated as debt for U.S. federal income tax purposes, unless otherwise stated. For a further discussion of certain tax consequences to holders of the New Notes, including certain tax consequences of the purchase, ownership or disposition of the New Notes, see the preliminary offering memorandum attached to this Statement as Exhibit 1.

The preliminary prospectus relating to the Citi Notes, attached to this Statement as Exhibit 2, describes certain tax consequences of the purchase, ownership or disposition of the Citi Notes, treating the Citi Notes as issued for cash equal to their stated issue price. We assume for the remainder of the discussion below that the Citi Notes will be treated in this manner, unless otherwise stated, with the result that, as described in the preliminary prospectus, the Citi Notes will be issued with original issue discount ("OID"). Very generally, a holder of a note with OID is required to recognize income with respect to the note on a constant yield basis, without regard to whether the holder has received a corresponding cash interest payment. For a further discussion of certain tax consequences to holders of the Citi Notes, see the preliminary prospectus attached to this Statement as Exhibit 2.

As used herein, the term "U.S. Holder" means a holder of Notes that is, for U.S. federal income tax purposes:

- an individual who is a citizen or resident of the United States;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, created or organized in or under the laws of the United States, any state thereof or the District of Columbia;

- an estate the income of which is subject to U.S. federal income tax regardless of its source; or

- a trust (i) if a U.S. court is able to exercise primary supervision over administration of the trust and one or more United States persons have authority to control all substantial decisions of the trust, or (ii) that has a valid election in place under applicable Treasury Regulations to be treated as a domestic trust.

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

**The precise characterization for U.S. federal income tax purposes of this Offer is not entirely certain. Each U.S. Holder and non-U.S. Holder is urged to consult its tax advisor regarding the particular U.S. tax consequences to such holder of this Offer, the receipt of the Consent Payment, and the ownership and disposition of the Existing Notes, New Notes and/or Citi Notes, as well as any tax consequences that may arise under the laws of any other relevant foreign, state, local, or other taxing jurisdiction.**

**Tax Treatment of the Consent Payment**

Although the matter is not entirely free from doubt, we intend to treat the Consent Payment as part of the consideration paid for the tender of the Existing Notes. Under this treatment, the Consent Payment will be subject to the same treatment as the other cash payments made in exchange for the Existing Notes, as described below. Alternatively, the Consent Payment could be treated as separate consideration for consenting to the Proposed Amendments, in which case such amount would constitute ordinary income to a U.S. Holder.

**Tax Consequences to Tendering U.S. Holders of Existing Senior Notes**

*Cash Tender*

A U.S. Holder that tenders Existing Senior Notes for cash will recognize gain or loss in the amount of the difference between (x) the amount of cash received (other than cash attributable to the allocable portion of any accrued but unpaid interest, which will be taxable as such) and (y) the U.S. Holder's adjusted tax basis in the Existing Senior Notes. A U.S. Holder's "adjusted tax basis" in the Existing Senior Notes generally will be the U.S. Holder's purchase price, increased by any OID and market discount included in the gross income of the U.S. Holder and reduced by any amortized premium and payments on the Existing Senior Notes other than payments of qualified stated interest (generally, stated interest payable at least annually at a fixed rate). Subject to the market discount rules described below, the U.S. Holder's gain or loss will be capital gain or loss, and will be long-term capital gain or loss if at the time of the tender the Existing Senior Notes have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gains of non-corporate U.S. Holders are eligible for taxation at preferential rates. The deduction of capital losses for U.S. federal income tax purposes is subject to limitations.

*Election to Purchase Citi Notes*

Because the Citi Notes are being offered only to holders making a Citi Note Election in connection with this Offer, it is possible that the Internal Revenue Service ("IRS") or a court would treat a holder of Existing Senior Notes who makes the Citi Note Election as exchanging the Existing Senior Notes for cash and Citi Notes. In that event, a U.S. Holder would recognize gain or loss on the exchange in the amount of the difference between (x) the amount of the Senior Notes Total Consideration that is not used to purchase Citi Notes, other than amounts treated as paid in respect of accrued but unpaid interest, plus the "issue price" of the Citi Notes (as described below) and (y) the U.S. Holder's adjusted tax basis (as defined above) in the Existing Senior Notes.

If the Existing Senior Notes are treated as exchanged in part for Citi Notes, the issue price of the Citi Notes will depend on whether either the Citi Notes or the Existing Senior Notes are treated as "publicly traded," as defined below in "—Tax Consequences to Tendering U.S. Holder of Existing Subordinate Notes." If either the Citi Notes or Existing Senior Notes were treated as publicly traded, the issue price of the Citi Notes would be the fair market value of the publicly traded Notes. We believe, however, that the Existing Senior Notes are not publicly traded for these purposes, and it is anticipated that the Citi Notes also will not be treated as publicly traded for these purposes. In this case, the issue price of the Citi Notes would generally be equal to their stated redemption price at maturity,

provided that interest is payable on the Citi Notes at a rate sufficient to constitute "adequate" stated interest (generally, interest at least equal to the "applicable federal rate"). As a result, the amount realized by a U.S. Holder that is treated as tendering Existing Senior Notes in exchange, in part, for Citi Notes would be higher than would be the case if the Existing Senior Notes were treated as disposed of solely for cash. A higher amount realized would increase the amount of gain or reduce the amount of loss recognized by a U.S. Holder that tenders Existing Senior Notes. In addition, the Citi Notes would be treated as issued for their stated principal amount and would not (contrary to the tax disclosure in the Citi Notes preliminary prospectus) be treated as issued with OID.

We do not believe that a holder of Existing Senior Notes who makes the Citi Notes Election should be treated as exchanging the Existing Senior Notes for cash and Citi Notes, and we intend to treat such holder as disposing of the Existing Senior Notes for the cash offered hereby and the Citi Notes as issued for cash equal to their stated issue price. However, we cannot give you any assurance that the IRS or a court would agree with our treatment. **U.S. Holders should consult their own tax advisors with respect to the possible consequences to them of the tender of Existing Senior Notes in the event that the Holder also makes the Citi Notes Election.**

For a further description of the tax consequences to U.S. Holders of owning the Citi Notes, see the preliminary prospectus attached to this Statement as Exhibit 2.

**Tax Consequences to Tendering U.S. Holders of Existing Subordinate Notes**

The tender of Existing Subordinate Notes will be treated as a sale in exchange for cash, New Class B Notes and New Class C Notes. In accordance with this treatment, a U.S. Holder will recognize gain or loss in the amount of the difference between (x) the amount of cash received (other than cash attributable to the allocable portion of any accrued but unpaid interest, which will be taxable as such), plus the "issue price" (as defined below) of the New Class B Notes and New Class C Notes received and (y) the U.S. Holder's adjusted tax basis in the Existing Subordinate Notes. Subject to the market discount rules, the U.S. Holder's gain or loss will be capital gain or loss, and will be long-term capital gain or loss if at the time of the tender the Existing Subordinate Notes have been held for more than one year. Under current U.S. federal income tax law, net long-term capital gains of non-corporate U.S. Holders are eligible for taxation at preferential rates. The deduction of capital losses for U.S. federal income tax purposes is subject to limitations.

The issue price of a new note generally is equal to the initial offering price to the public at which price a substantial amount of such notes were sold for cash. If a substantial amount of the New Class B Notes or New Class C Notes are not sold in their initial offering for cash and are issued in exchange for property (as will be the case for those New Notes), the issue price of those New Notes will depend on whether such New Notes and/or the Existing Subordinate Notes are treated as publicly traded. For these purposes, notes are considered to be publicly traded if they appear on a quotation medium (generally, a system of general circulation that disseminates price quotations or sales prices) that provides a reasonable basis to determine fair market value, or if price quotations are readily available from dealers, brokers or traders. If either the New Notes issued in exchange for the Existing Subordinate Notes or the Existing Subordinate Notes were treated as publicly traded, the issue price of such New Notes would be the fair market value of the publicly traded New Notes. We anticipate that the New Notes will be treated as publicly traded, in which case the issue price of such New Notes will be equal to their fair market value on the issue date.

Under these rules, if the issue price of the New Notes is less than their stated principal amount by more than a *de minimis* amount, the New Notes will be treated as issued with OID, which may be substantial. Based on the description in the preliminary offering memorandum attached to this Statement as Exhibit 1, the New Class C Notes will be treated as issued with OID regardless of their issue price because they do not require interest to be paid at least annually, and it is expected that no interest will be paid for several years. However, the issue price of the New Class C Notes will affect the total amount of OID on those Notes.

If, contrary to our expectations, neither the New Notes nor the Existing Subordinate Notes are treated as publicly traded, then the amount realized by a U.S. Holder that tenders Existing Subordinate Notes would be higher than that described above. A higher amount realized would increase the amount of gain or reduce the amount of loss recognized by a U.S. Holder that tenders Existing Subordinate Notes. In addition, the New Class B Notes would be treated as issued for their stated principal amount and would not (contrary to the tax disclosure in the preliminary offering memorandum attached to this Statement as Exhibit 1) be treated as issued with OID.

The preliminary offering memorandum states that it is possible that the New Class C Notes might be treated as equity in a partnership for U.S. tax purposes. While not entirely certain, we believe that if this were the case, and if the New Notes are publicly traded, it is likely that such partnership would specially allocate to the U.S. Holders the same or similar amount of gain or loss as would have been recognized by such U.S. Holders if the New Class C Notes were treated as debt.

For a further description of the tax consequences to U.S. Holders of owning the New Notes, see the preliminary offering memorandum attached to this Statement as Exhibit 1.

**Market Discount**

If a U.S. Holder of an Existing Note purchased the Existing Note at a price that is lower than its remaining redemption amount, or in the case of an Existing Note with OID, its adjusted issue price, by at least 0.25% of its remaining redemption amount multiplied by the number of remaining whole years to maturity, the Existing Note is considered to have "market discount" in the hands of such U.S. Holder. In such case, gain realized by the U.S. Holder on the disposition of the Existing Note generally will be treated as ordinary income to the extent of the market discount that accrued on the Existing Note while held by such U.S. Holder. In general terms, market discount on an Existing Note is treated as accruing ratably over the term of such Existing Note, or, at the election of the holder, under a constant yield method. A U.S. Holder may elect to include market discount in income on a current basis as it accrues (on either a ratable or constant-yield basis), in lieu of treating a portion of any gain realized on a sale of an Existing Note as ordinary income. Any such election, if made, applies to all market discount bonds acquired by the taxpayer on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS.

**Premium**

A U.S. Holder of an Existing Note that purchased the Existing Note at a cost greater than its remaining redemption amount (generally, the total of all future payments to be made on the Existing Note other than payments of qualified stated interest) will be considered to have purchased the Existing Note at a premium, and may have elected to amortize such premium (as an offset to interest income), using a constant-yield method, over the remaining term of the Existing Note. Such election, once made, generally applies to all bonds held or subsequently acquired by the U.S. Holder on or after the first taxable year to which the election applies and may not be revoked without the consent of the IRS. A U.S. Holder that elected to amortize such premium must reduce its tax basis in an Existing Note by the amount of the premium amortized during its holding period. With respect to a U.S. Holder that did not elect to amortize bond premium, the amount of bond premium will be included in the U.S. Holder's tax basis when the Existing Note matures or is disposed of by the U.S. Holder.

**Tax Consequences to Non-Tendering U.S. Holders**

As described in this Statement, we are obligated to purchase Existing Notes from holders only if the Minimum Tender Condition is met. If the Minimum Tender Condition is not met, we will not purchase Existing Notes, and there will be no tax consequences to non-tendering U.S. Holders. If the Minimum Tender Condition is met, it is expected that we will redeem the Existing Notes of any non-tendering U.S. Holders in exchange for cash equal to their remaining principal amount (plus accrued but unpaid interest). In this case, the tax treatment of non-tendering U.S. Holders will be substantially the same as the treatment of U.S. Holders that tender their Existing Notes for cash, as described above.

**Tax Consequences to Non-U.S. Holders**

A non-U.S. Holder will not be subject to U.S. federal income or withholding tax as a result of the exchange of Existing Notes for cash and/or New Class B Notes and New Class C Notes or as the result of any election to purchase Citi Notes (except for cash attributable to the allocable portion of any accrued but unpaid interest, which may be subject to withholding tax if the non-U.S. Holder has failed to provide appropriate U.S. tax forms or documentation, and cash attributable to the Consent Payment, which is discussed below), unless (i) the gain is effectively connected with the conduct of a trade or business by the non-U.S. Holder in the United States (and, if certain tax treaties apply, is attributable to a permanent establishment or fixed base maintained within the United

States by the non-U.S. Holder) or (ii) the non-U.S. Holder is an individual present in the United States for 183 days or more in the taxable year of disposition and certain other criteria are met.

As described above, we intend to treat the Consent Payment as part of the consideration paid for the tender of the Existing Notes. In this case, the Consent Payment would generally not be subject to U.S. federal income or withholding tax to non-U.S. Holders, unless one of the exceptions in the preceding paragraph applied. Therefore, we do not intend to withhold U.S. federal tax on the Consent Payment.

For a further description of the tax consequences to non-U.S. Holders of owning the Citi Notes or the New Notes, see the preliminary prospectus attached to this Statement as Exhibit 1 or the preliminary offering memorandum attached to this Statement as Exhibit 2, as applicable.

**Information Reporting and Backup Withholding**

In general, information reporting requirements may apply to payments made to U.S. Holders other than certain payments made to exempt recipients (such as corporations). Backup withholding may apply to payments if the U.S. Holder fails to provide a taxpayer identification number on IRS Form W-9, furnishes an incorrect taxpayer identification number, fails to certify exemption from backup withholding or receives notification from the IRS that the holder is subject to backup withholding as a result of a failure to report all interest or dividends. Backup withholding is not an additional tax. Any amounts withheld from a payment to a U.S. Holder under the backup withholding rules generally will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle the holder to a refund, provided that the required information is furnished to the IRS.

Payments to a non-U.S. Holder that is not an exempt recipient may be subject to information reporting requirements, and may be subject to backup withholding unless the non-U.S. Holder certifies its non-U.S. status on IRS Form W-8 (or another applicable form).

## DEALER MANAGER AND SOLICITATION AGENT; DEPOSITARY; INFORMATION AGENT

We have retained Citi (Citigroup Global Markets Inc.) to act as Dealer Manager and Solicitation Agent in connection with the Offer to Purchase and the Consent Solicitation. In its capacity as Dealer Manager and Solicitation Agent, Citi may contact holders regarding the Offer to Purchase and the Consent Solicitation and may request brokers, dealers and other nominees to forward this Statement and related materials to beneficial owners of Existing Notes.

We will pay the Dealer Manager for the Offer to Purchase a commission of $2.50 for each $1,000 principal amount of Outstanding Securities accepted in the Concurrent Offers and an underwriting fee of $2.50 for each $1,000 principal amount of New Class A Notes issued in the related Resecuritization Process. These amounts, together with expenses of the Concurrent Offers being simultaneously settled and the related Resecuritization Process, will be deducted from proceeds of the related New Notes offering.

We will reimburse the Dealer Manager, from the proceeds of the issuance of the New Notes, for the Dealer Manager's reasonable out-of-pocket expenses, including the reasonable expenses and disbursements of its legal counsel. We have also agreed to indemnify the Dealer Manager and its affiliates against certain liabilities in connection with their services, including liabilities under the federal securities laws.

Citi is subject to various conflicts of interest related to the Concurrent Offers (including this Offer), including as a result of Citi's ownership of a large amount of Outstanding Securities (particularly Outstanding Subordinate Securities). See "Risk Factors—Citi has conflicts of interest." As a result, holders should not rely on Citi to make any judgment for them as to the fairness of this Offer.

Citi or its affiliates own a substantial amount of the Outstanding Securities. As a result, Citi has a material economic interest in the successful outcome of the Concurrent Offers that is in addition to any dealer manager or underwriter fees it might earn. Due to the amount of Outstanding Securities Citi owns, if Citi does not participate in the Concurrent Offers, the Minimum Tender Condition will not be met for any Concurrent Offer and the Concurrent Offers will not succeed.

Because of the holdings described under "Risk Factors—Citi has conflicts of interest," the economic impact of the Concurrent Offers on Citi will vary significantly depending on how the Concurrent Offers are structured and which of the Concurrent Offers proceed. In particular, due to Citi's large holdings of Outstanding Subordinate Securities, offer structures that are advantageous to the holders of Outstanding Subordinate Securities (and therefore disadvantageous to the holders of Outstanding Senior Securities) would generally favor Citi's interests.

Citi also intends to provide a bid for, and may purchase, certain Ineligible Underlying Assets. Citi's bid will be made by employees that have no knowledge of any non-public information received by Citi in its role as Dealer Manager, but in bidding, Citi will act as an independent party and will have no obligation to take into account the interests of holders of Outstanding Securities. The market for such assets is expected to be limited, and thus the price received for such assets may not reflect inherent value.

Citi and its affiliates have provided in the past, and/or are currently providing, other investment and commercial banking and financial and commercial advisory services to the Outstanding Security Issuers, including the Existing Note Issuer. Citi may continue to provide various investment banking and other services to the Outstanding Security Issuers, including the Existing Note Issuer, for which it would receive customary compensation.

The public side employees of Citi who have authority to decide whether to tender the Outstanding Securities owned by Citi and its affiliates into this Offer are restricted for legal and policy reasons from communicating with Citi's private side employees. The terms of the Concurrent Offers were not disclosed to the public side employees in advance of launch of Concurrent Offers. Any decision by Citi to tender the Outstanding Securities owned by it into the Concurrent Offers will be made by public side employees based on the best interests of Citi, without regard to and independent of its role as Dealer Manager. Due to the amount of Outstanding Securities Citi owns, if Citi

does not participate in the Concurrent Offers, the Minimum Tender Condition will not be met for any Concurrent Offer and the Concurrent Offers will not succeed. Any decision by Citi to tender the Outstanding Securities owned by it into the Concurrent Offers will be made by public side employees based on the best interests of Citi, without regard to and independent of its role as Dealer Manager, and those employees have no obligation to tender or refrain from tendering Outstanding Securities beneficially owned by Citi in any Concurrent Offers.

Citi, in its sole discretion, may continue to own or dispose of, in any manner it may elect, any Outstanding Securities it may beneficially own at the date hereof or hereafter acquire, in any such case subject to applicable law. The individuals with that responsibility have no obligation to us, pursuant to this Agreement or otherwise, to tender or refrain from tendering Outstanding Securities beneficially owned by Citi in any Concurrent Offers (or to deliver Consents in the Consent Solicitation). During this Offer and the other Concurrent Offers, Citi may trade the Existing Notes, Outstanding Securities or other securities of the Outstanding Security Issuers, including the Existing Note Issuer, for its own account or for the accounts of its customers.

On August 7, 2008, Citi announced that it had reached an agreement in principle with each of the New York Attorney General, the Securities and Exchange Commission, and other state regulatory agencies regarding settlements in respect of certain auction rate securities. Pursuant to the agreements in principle, Citi will make a Settlement Offer pursuant to which it will offer to purchase at par by no later than November 5, 2008, auction rate securities that are not auctioning from all holders that are eligible (as described under "Notice Regarding Settlements") to participate in the Settlement Offer under the agreements in principle. Almost all of the Outstanding Securities are auction rate securities covered by the agreements in principle, which, if held by an eligible holder as defined in the agreements, will be eligible to be sold to Citi at par pursuant to the Settlement Offer that Citi will make in the near future.

Holders that are eligible to participate in the Settlement Offer are not eligible to participate in this Offer and are excluded from this Offer. These holders will be receiving offer materials for the Settlement Offer from Citi in the near future. Any holder that believes it may be eligible to participate in the Settlement Offer should contact Citi at (866) 720-4802. Citi will advise any holder who calls that number whether or not they are eligible to participate in the Settlement Offer and holders that are eligible to participate in the Settlement Offer will not be permitted to participate in this Offer.

The New York Attorney General will monitor Citi's progress in working to provide liquidity solutions for Citi institutional investor clients that purchased auction rate securities and, beginning on November 4, 2008, retains the right to take legal action against Citi with respect to its institutional investor clients. The other regulators have entered into a similar arrangement but with a December 31, 2009 date. There can be no assurance as to what form any further action by regulators could take or whether (and on what terms) it would result in any further offers in respect of the Outstanding Securities.

Although the Dealer Manager has informed us that it intends to make a market in the New Class B Notes, New Class C Notes and Citi Notes, it is under no obligation to do so and may cease doing so at any time. The New Class B Notes, New Class C Notes and Citi Notes are all new classes of securities with no existing trading markets and the development or liquidity of a trading market in any of these classes is uncertain. See "You may have difficulty selling your notes" under the heading "Risk Factors" in the preliminary offering memorandum attached to this Statement as Exhibit 1 and "There may be no trading market for the Notes" under the heading "Risk Factors" in the preliminary prospectus attached to this Statement as Exhibit 2.

Global Bondholder Services Corporation has been appointed Depositary and Information Agent for the Offer to Purchase and the Consent Solicitation. All deliveries and correspondence sent to the Depositary and Information Agent should be directed to the address set forth on the back cover of this Statement. We have agreed to pay the Depositary and Information Agent reasonable and customary fees for its services and to reimburse the Depositary and Information Agent for its reasonable out-of-pocket expenses in connection therewith. We have also agreed to indemnify the Depositary and Information Agent for certain liabilities, including liabilities under the federal securities laws.

None of the Dealer Manager, the Depositary or the Information Agent nor any affiliate of any of them assumes any responsibility for the accuracy or completeness of the information concerning us or the Outstanding Security Issuers, including the Existing Note Issuer, contained or incorporated by reference in this Statement or the other Offer Documents, or for any failure by us to disclose events that may have occurred after the date of this Statement that may affect the significance or accuracy of this information.

In connection with the Offer to Purchase and the Consent Solicitation, our directors, officers and regular employees (who will not be specifically compensated for such services) may solicit tenders and Consents by use of the mails, personally or by telephone. We will also pay brokerage houses and other custodians, nominees and fiduciaries the reasonable out-of-pocket expenses incurred by them in forwarding copies of this Statement and related documents to the beneficial owners of the Existing Notes and in handling or forwarding tenders of Existing Notes and deliveries of accompanying Consents by their customers.

## GLOSSARY

"ATOP" means DTC's Automated Tender Offer Program, for which the transaction will be eligible.

"Citi Note Cash Price" means the cash amount specified as such in the term sheet attached hereto.

"Citi Note Election" means the option of holders whose Existing Senior Notes are accepted for purchase in this Offer to apply a portion of the cash consideration they are entitled to receive to purchase Citi Notes from Citigroup Inc. as described herein.

"Citi Note Principal Amount" means the principal amount of Citi Notes specified as such in the term sheet attached hereto.

"Citi Notes" means the senior unsecured notes of Citigroup Inc. described herein.

"Concurrent Offer" means each of thirteen similar offers that we are making in respect of Outstanding Securities, including this Offer in respect of the Existing Notes.

"Consents" means consents to the Proposed Amendments.

"Consent Date" means October 17, 2008 at 5:00 p.m. New York City time, as such date and time may be extended.

"Consent Payment" means an amount in cash equal to $5.00 for each $1,000 principal amount of Existing Notes held by the holder that are accepted in this Offer that we will pay each holder that validly consents to the Proposed Amendments on or prior to the Consent Date.

"Consent Solicitation" means, in conjunction with the Offer to Purchase, the solicitation of Consents to the Proposed Amendments to the Existing Indenture under which the Existing Notes were issued.

"Eligible Underlying Assets" means education loans (including any accrued and unpaid or uncapitalized interest) to students and parents of students made under FFELP and HEAL (in each case, excluding loans reported as over 180 days past due as of July 31, 2008 and any loans in claims status).

"Excess Proceeds" means the proceeds, if any, resulting from the Resecuritization Process in excess of the Requisite Proceeds.

"Existing Indenture" means the indenture identified as such in the term sheet attached hereto.

"Existing Notes" means, collectively, the Existing Senior Notes and the Existing Subordinate Notes.

"Existing Senior Notes" means the securities identified as such in the covering term sheet.

"Existing Subordinate Notes" means the securities identified as such in the covering term sheet.

"Expiration Date" means November 6, 2008 at 8:00 a.m., New York City time, as such date and time may be extended.

"FFELP" means the Federal Family Education Loan Program.

"Financing Condition" means the condition pursuant to which we will not be obligated to accept Existing Notes for purchase under this Offer unless we successfully obtain the Requisite Proceeds through the Resecuritization Process.

"HEAL" means the Health Education Assistance Loan Program.

"Indenture" means the new indenture under which the New Class A Notes, the New Class B Notes and the New Class C Notes will be issued.

"Ineligible Underlying Assets" means all other Underlying Assets, including (i) all "private" student loans, (ii) all FFELP or HEAL Program loans reported as over 180 days past due as of July 31, 2008 and (iii) any loans in claims status (in each case, including any accrued and unpaid or uncapitalized interest).

"Initial Offer Selection Date" means October 20, 2008 at or before 12:00 noon, New York City time, as such date and time may be extended.

"Marketing Condition" means the condition pursuant to which we will not be obligated to proceed with any Resecuritization Process if we are advised by the Dealer Manager that, in its reasonable judgment based on prevailing market conditions, it is not reasonably likely that the related Eligible Underlying Assets could be securitized in a manner that would provide the Requisite Proceeds for the relevant Concurrent Offers.

"Master Servicer" means The Brazos Higher Education Service Corporation, Inc.

"Minimum Tender Condition" means the condition in respect of each Concurrent Offer pursuant to which (a) at least 95% of the outstanding aggregate principal amount of Existing Senior Notes (as defined in respect of that Concurrent Offer) must be tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline (as defined in respect of that Concurrent Offer) and (b) at least 99% of the outstanding aggregate principal amount of Existing Subordinate Notes (as defined in respect of that Concurrent Offer) must be tendered (and not validly withdrawn) on or prior to the applicable Withdrawal Deadline (as defined in respect of that Concurrent Offer).

"New Class A Notes" means the new senior notes to be issued by us for cash under the Indenture, secured by the Eligible Underlying Assets that previously secured Outstanding Securities that are the subject of a Resecuritization Process, as described herein.

"New Class B Notes" means the new subordinate notes to be issued by us as part of the consideration delivered to holders of Existing Subordinate Notes that participate in the Concurrent Offers under the Indenture, secured on a subordinate basis by the Eligible Underlying Assets that previously secured Outstanding Securities that are the subject of the related Resecuritization Process, as described herein.

"New Class C Notes" means the new junior subordinate notes to be issued by us as part of the consideration delivered to holders of Existing Subordinate Notes that participate in the Concurrent Offers under the Indenture, secured on a subordinate basis by the Eligible Underlying Assets that previously secured Outstanding Securities that are the subject of the related Resecuritization Process, as described herein.

"New Notes" means, collectively, the New Class A Notes, New Class B Notes and New Class C Notes.

"Offer" means, collectively, the Offer to Purchase and the Consent Solicitation.

"Offer Documents" means, collectively, the Statement and the accompanying Consent and Letter of Transmittal.

"Offer Priority" means the priority ordering set forth under "Principal Terms of the Offer to Purchase and the Consent Solicitation."

"Offer to Purchase" means the offer to acquire any and all of the Existing Senior Notes and the Existing Subordinate Notes for the consideration described herein.

"Offer to Purchase or Exchange" means this document, which is so entitled.

"Outstanding Indenture" means each of the thirteen different indentures to which one of the Outstanding Security Issuers is a party under which the Outstanding Securities were issued.

"Outstanding Securities" means, collectively, the securities being offered in each Concurrent Offer, issued under thirteen different Outstanding Indentures.

"Outstanding Security Issuers" means the non-profit corporations whose business affairs are managed by the Master Servicer, which have issued the Outstanding Securities.

"Outstanding Senior Securities" mean the outstanding senior securities (including the Existing Senior Notes that are the subject of this Offer) that have been issued under the Outstanding Indentures.

"Outstanding Subordinate Securities" mean the outstanding subordinate securities (including the Existing Subordinate Notes that are the subject of this Offer) that have been issued under the Outstanding Indentures.

"Proposed Amendments" means the amendments we are seeking to modify the terms of the Existing Indenture to facilitate defeasance of the Existing Indenture.

"Reference Size" means, in respect of the initial Resecuritization Process, $2.02 billion.

"Requisite Proceeds" has the meaning set forth under "Summary—Funding of this Offer."

"Resecuritization Process" means, with respect to the Concurrent Offers we select on an Offer Selection Date, the process of (a) offering and selling for cash New Class A Notes issued by us under the Indenture, secured by the Eligible Underlying Assets that previously secured the Outstanding Securities that are the subject of these Concurrent Offers, (b) issuing New Class B Notes and New Class C Notes under the Indenture, secured on a subordinate basis by the same collateral as the New Class A Notes, as part of the consideration delivered to holders of Outstanding Subordinate Securities that are the subject of these Concurrent Offers and (c) otherwise monetizing or exchanging the Ineligible Underlying Assets that previously secured the Outstanding Securities that are the subject of these Concurrent Offers.

"Senior Notes Total Consideration" means the consideration offered for Existing Senior Notes tendered prior to the Consent Date as identified in the covering term sheet.

"Settlement Offer" means the offer Citi will make pursuant to the agreements in principle Citi reached with the New York Attorney General, the Securities and Exchange Commission, and other state regulatory agencies regarding settlements in respect of certain auction rate securities as described under "Notice Regarding Settlements."

"Statement" means the Offer to Purchase or Exchange, as supplemented, including by the covering term sheet; "Statements" means, collectively, the Offer to Purchase or Exchange, as supplemented, including by the various term sheets.

"Subordinate Notes Total Consideration" means the consideration offered for Existing Subordinate Notes tendered prior to the Consent Date as identified in the covering term sheet.

"Trustee" means the trustee identified in the covering term sheet.

"Withdrawal Deadline" means October 17, 2008 at 5:00 p.m., New York City time, as such date and time may be extended.

# ANNEX 1:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF DECEMBER 1, 2006, BETWEEN BRAZOS HIGHER EDUCATION AUTHORITY, INC. AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Higher Education Authority, Inc. ("BHEA") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of December 1, 2006, by and among BHEA, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "BHEA 93AC Indenture"). BHEA is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BHEA 93AC Indenture

As of July 31, 2008, the following senior securities were outstanding under the BHEA 93AC Indenture:

| CUSIP | Series of Senior Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238DX3 | Series 1994 A-1 | $ 18,100,000 | June 1, 2014 | Tax-Exempt Auction Rate | 35 days |
| 106238EK0 | Series 1997 A-1 | 35,000,000 | Dec. 1, 2027 | Tax-Exempt Auction Rate | 35 days |
| 106238EM6 | Series 1997 A-3 | 3,000,000 | Dec. 1, 2008 | Tax-Exempt Auction Rate | 35 days |
| 106238ET1 | Series 1998 A-2 | 5,050,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238EU8 | Series 1998 A-3 | 35,000,000 | Feb. 1, 2038 | Tax-Exempt Auction Rate | 35 days |
| 106238EX2 | Series 1998 A-4 | 4,950,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238GX0 | Series 2001 A-7 | 1,300,000 | Aug. 1, 2011 | Tax-Exempt Auction Rate | 35 days |
| 106238GY8 | Series 2001 A-7 | 7,100,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238HN1 | Series 2002 A-4 | 7,700,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238HP6 | Series 2002 A-4 | 4,700,000 | Aug. 1, 2011 | Tax-Exempt Auction Rate | 35 days |
| 106238HV3 | Series 2002 A-8 | 49,600,000 | Dec. 1, 2037 | Taxable Auction Rate | 28 days |
| 106238HX9 | Series 2002 A-10 | 71,100,000 | Dec. 1, 2037 | Taxable Auction Rate | 28 days |
| 106238HY7 | Series 2002 A-11 | 35,400,000 | Dec. 1, 2037 | Taxable Auction Rate | 7 days |
| 106238HZ4 | Series 2002 A-12 | 70,900,000 | Dec. 1, 2037 | Taxable Auction Rate | 7 days |
| 106238KE7 | Series 2004 A-6 | 1,000,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238KG2 | Series 2004 A-8 | 4,200,000 | Dec. 1, 2038 | Taxable Auction Rate | 7 days |
| 106238KH0 | Series 2004 A-9 | 79,400,000 | Dec. 1, 2038 | Taxable Auction Rate | 28 days |
| 106238KF4 | Series 2004 A-7 | 50,900,000 | Dec. 1, 2038 | Tax-Exempt Auction Rate | 35 days |
| 106238KK3 | Series 2004 A-11 | 38,500,000 | Dec. 1, 2038 | Taxable Auction Rate | 28 days |
| 106238KU1 | Series 2004 A-12 | 73,000,000 | Dec. 1, 2039 | Tax-Exempt Auction Rate | 35 days |
| 106238KV9 | Series 2004 A-13 | 65,800,000 | Dec. 1, 2039 | Taxable Auction Rate | 28 days |
| 106238KW7 | Series 2004 A-14 | 32,900,000 | Dec. 1, 2039 | Taxable Auction Rate | 7 days |
| 106238LQ9 | Series 2006 A-1 | 56,950,000 | Dec. 1, 2041 | Tax-Exempt Auction Rate | 35 days |
| 106238LR7 | Series 2006 A-2 | 243,050,000 | Dec. 1, 2041 | Taxable Reset Rate | N/A |
| 10620NBE7 | Series 2006 A-7 | 50,000,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10620NBF4 | Series 2006 A-8 | 50,300,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| 10620NBG2 | Series 2006 A-9 | 58,900,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| 10620NBH0 | Series 2006 A-10 | 58,900,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $1,212,700,000 | | | |

**Outstanding Subordinate Securities Under BHEA 93AC Indenture**

As of July 31, 2008, the following subordinate securities were outstanding under the BHEA 93AC Indenture:

| CUSIP | Series of Subordinate Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238GB8 | Series 2000 B-1* | $ 11,000,000 | May 1, 2030 | Taxable Auction Rate | 28 days |
| 106238GK8 | Series 2000 C-1 | 26,000,000 | Oct. 1, 2030 | Taxable Auction Rate | 28 days |
| 106238HG6 | Series 2001 C-1 | 23,500,000 | Nov. 1, 2036 | Taxable Auction Rate | 28 days |
| 106238HT8 | Series 2002 C-1 | 17,500,000 | Dec. 1, 2037 | Taxable Auction Rate | 28 days |
| 106238JA7 | Series 2002 C-2 | 35,000,000 | Dec. 1, 2037 | Taxable Auction Rate | 28 days |
| 106238KL1 | Series 2004 C-1 | 37,000,000 | Dec. 1, 2038 | Taxable Auction Rate | 28 days |
| Total | | $150,000,000 | | | |

* The lien securing the Series 2000 B-1 bonds issued under the BHEA 93AC Indenture is junior and subordinate to the lien securing the senior securities listed in the table above under the caption "Outstanding Senior Securities Under the BHEA 93AC Indenture". The lien securing the Series 2000 B-1 bonds issued under the BHEA 93AC Indenture is senior to the lien securing the other subordinate securities listed in this table.

**Senior Note Total Consideration**

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BHEA 93AC Indenture" is $940 per $1,000 principal amount tendered.

**Interest Rates**

The interest rate for each series of auction rate securities issued under the BHEA 93AC Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BHEA 93AC Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BHEA 93AC Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their securities which are designated as “Taxable Auction Rate” above.

The Series 2006 A-2 bonds issued under the BHEA 93AC Indenture are reset rate securities. The initial reset date for the Series 2006 A-2 bonds is March 25, 2009. During the current reset period, the Series 2006 A-2 bonds bear interest at a fixed rate equal to 5.03% per annum.

**Redemption of the Securities**

The outstanding auction rate securities issued under the BHEA 93AC Indenture (other than the Series 1994 A-1 bonds described below) are subject to optional redemption, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no outstanding taxable auction rate securities, which have accrued but unpaid interest carryover (as calculated under the BHEA 93AC Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

The Series 1994 A-1 bonds issued under the BHEA 93AC Indenture are subject to optional redemption, in whole or in part on any date at a redemption price of par plus accrued but unpaid interest, without premium.

With respect to the Series 2000 B-1 bonds, notice of any optional redemption is required to be given to the holders not less than 5 business days prior to the redemption date. With respect to the Series 2004 A-6, Series 2004 A-7 and Series 2004 A-12 bonds, notice of any optional redemption is required to be given to the holders not less than 15 business days prior to the redemption date. With respect to the other outstanding auction rate securities, notice of any optional redemption is required to be given to the holders not less than 15 days prior to the redemption date.

The Series 2006 A-2 bonds are subject to optional redemption, in whole only, upon 10 days prior notice, on any reset date at a redemption price of par, plus accrued interest thereon.

Pursuant to the terms of the BHEA 93AC Indenture, the securities designated as "Tax-Exempt Auction Rate" above are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 93AC Indenture, mandatory redemptions from excess cash flows of the outstanding tax-exempt auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

Pursuant to the terms of the BHEA 93AC Indenture, the outstanding taxable auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 93AC Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding taxable auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BHEA 93AC Indenture, mandatory redemptions from excess cash flows within a particular class of the outstanding taxable auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

Pursuant to the terms of the BHEA 93AC Indenture, the Series 2006 A-2 bonds are subject are subject to mandatory redemption from excess cash flows as set forth in the BHEA 93AC Indenture.

**Proposed Amendment**

Under the terms of the BHEA 93AC Indenture, holders of not less than 60% of the aggregate principal amount of bonds outstanding thereunder are required to consent to the supplemental indenture to the BHEA 93AC Indenture. In addition, the consent of Bank of America, N.A., as counterparty under the swap agreement described below, is required to be obtained with respect to the supplemental indenture to the BHEA 93AC Indenture.

**Other Obligations**

Derivative Product. On February 15, 2006, BHEA entered into a swap agreement with Bank of America, N.A., as counterparty, relating to the Series 2006 A-2 bonds issued under the BHEA 93AC Indenture. The Series 2006 A-2 bonds issued under the BHEA 93AC Indenture are reset rate securities. This is the only outstanding derivative product secured under the BHEA 93AC Indenture.

This swap agreement is documented under a 1992 ISDA Master Agreement (Multicurrency-Cross Border) modified to reflect the terms of the Series 2006 A-2 bonds and the BHEA 93AC Indenture. The swap notional amount under this swap agreement is $243,050,000. This swap agreement is scheduled to be in effect for the first reset period for the Series 2006 A-2 bonds and to terminate pursuant to its terms on March 25, 2009**.** In connection with a successful Concurrent Offer relating to the securities issued under the BHEA 93AC Indenture and the cancellation or redemption and defeasance of all outstanding securities thereunder, this swap agreement will be terminated.

Upon any early termination of this swap agreement, either BHEA or the counterparty may be liable to make a termination payment to the other. The amount of the termination payment is based on the value of the transaction as computed in accordance with the procedures provided in the swap agreement. As of July 31, 2008, the value of the transaction based on these procedures would have required a termination payment by the counterparty to BHEA in the amount of $3,309,637.

Rebate Obligation. Under the BHEA 93AC Indenture, BHEA is required to pay, or cause to be paid, to the United States of America the amount required to be rebated with respect to the tax-exempt securities issued under the BHEA 93AC Indenture. As of July 31, 2008, the amount of this rebate liability was approximately $5,122. Under the terms of the BHEA 93AC Indenture, BHEA is required to pay to the United States certain excess interest yield adjustment payments to reduce the amount of yield on the student loans financed by the tax-exempt auction rate securities to a yield that is not materially higher than the yield on the tax-exempt auction rate securities plus a permitted spread. As of July 31, 2008, the amount of the excess interest liability to be paid to the United States was approximately $817,903.

There are no other obligations secured under the BHEA 93AC Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BHEA 93AC Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BHEA 93AC Indenture, including a collection account, a principal distribution account, an interest account, a student loan account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BHEA 93AC Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 4,818,941 |
| Principal Distribution Account | 17,912,692 |
| Interest Account | 4,098,492 |
| Operating Account* | 371,498 |
| Excess Interest Account* | 967,019 |
| Rebate Account* | 15,753 |
| Student Loan Account | 116,508 |
| Reserve Account | 13,579,000 |
| Total** | $41,879,905 |

* The Operating Account, the Excess Interest Account and the Rebate Account are not pledged funds and are not held for the benefit of the holders of the securities issued under the BHEA 93AC Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BHEA 93AC Indenture. Amounts in the Excess Interest Account and the Rebate Account are held in trust for the United States of America to fulfill BHEA's obligations to rebate certain arbitrage profits to the United States.

** The dollar amount set forth under "Total" in the table above may not total 100% of the account balances set forth in the table above due to rounding.

Expenses. Under the BHEA 93AC Indenture, BHEA incurred $19,737,498 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BHEA 93AC Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BHEA 93AC Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $1,279,031,312 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.5% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 2.5% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BHEA 93AC Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $1,279,031,312 |
| Number of Borrowers (1) | 108,791 |
| Average Outstanding Principal Balance Per Borrower | $ 11,757 |
| Number of Loans | 253,749 |
| Average Outstanding Principal Balance Per Loan | $ 5,041 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 164 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.81% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BHEA determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BHEA determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.25 – 2.99 | $ 71,825,913 | 5.62 | 5,155 |
| 3.00 – 3.49 | 56,584,400 | 4.42 | 3,756 |
| 3.50 – 3.99 | 237,326,091 | 18.56 | 55,890 |
| 4.00 – 4.49 | 362,420,932 | 28.34 | 116,202 |
| 4.50 – 4.99 | 116,741,650 | 9.13 | 7,734 |
| 5.00 – 5.49 | 122,790,259 | 9.60 | 21,805 |
| 5.50 – 5.99 | 26,860,900 | 2.10 | 1,593 |
| 6.00 – 6.49 | 29,305,770 | 2.29 | 1,509 |
| 6.50 – 6.99 | 134,609,259 | 10.52 | 30,883 |
| 7.00 – 7.49 | 32,000,599 | 2.50 | 1,765 |
| 7.50 – 7.99 | 18,245,010 | 1.43 | 1,292 |
| 8.00 – 8.49 | 31,007,682 | 2.42 | 2,485 |
| 8.50 or greater | 39,312,847 | 3.07 | 3,680 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

(1) BHEA determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 578,667,207 | 45.24 | 34,203 |
| PLUS/SLS | 94,834,432 | 7.41 | 12,926 |
| Stafford | 605,529,674 | 47.34 | 206,620 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 46,757,544 | 3.66 | 33,060 |
| 25 - 36 | 18,504,708 | 1.45 | 9,453 |
| 37 - 48 | 20,162,425 | 1.58 | 9,482 |
| 49 - 60 | 31,393,038 | 2.45 | 11,570 |
| 61 - 72 | 30,425,742 | 2.38 | 11,318 |
| 73 - 84 | 36,416,867 | 2.85 | 12,407 |
| 85 - 96 | 73,070,435 | 5.71 | 21,495 |
| 97 - 108 | 157,088,025 | 12.28 | 39,916 |
| 109 - 120 | 307,549,786 | 24.05 | 74,348 |
| 121 - 132 | 9,340,676 | 0.73 | 1,170 |
| 133 - 144 | 11,806,819 | 0.92 | 1,403 |
| 145 - 156 | 17,734,566 | 1.39 | 1,904 |
| 157 - 168 | 31,341,875 | 2.45 | 3,361 |
| 169 - 180 | 33,068,693 | 2.59 | 3,163 |
| 181 - 192 | 11,609,504 | 0.91 | 887 |
| 193 - 220 | 83,028,314 | 6.49 | 5,561 |
| 221 - 260 | 95,547,903 | 7.47 | 5,452 |
| 261 - 300 | 107,048,235 | 8.37 | 4,344 |
| 301 - 340 | 63,948,797 | 5.00 | 1,541 |
| 341 or greater | 93,187,361 | 7.29 | 1,914 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

(1) BHEA determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Claims* | $ 9,215,910 | 0.72 | 2,536 |
| Deferment | 236,785,560 | 18.51 | 43,375 |
| Forbearance | 138,783,229 | 10.85 | 24,176 |
| Grace | 31,572,864 | 2.47 | 7,822 |
| Repayment | 782,226,479 | 61.16 | 154,560 |
| School | 80,447,271 | 6.29 | 21,280 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 30 | $ 1,138,575,998 | 89.02 | 220,056 |
| 31 – 60 | 38,034,290 | 2.97 | 8,158 |
| 61 – 90 | 19,768,482 | 1.55 | 4,827 |
| 91 – 120 | 16,808,316 | 1.31 | 3,813 |
| 121 – 150 | 12,782,491 | 1.00 | 3,188 |
| 151 – 180 | 9,487,432 | 0.74 | 2,324 |
| 181 or greater* | 43,574,303 | 3.41 | 11,383 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Before Oct. 1, 1993 | $ 2,011,814 | 0.16 | 744 |
| Oct. 1, 1993 - Dec 31, 1999 | 75,699,988 | 5.92 | 29,479 |
| Jan. 1, 2000 - June 30, 2006 | 780,251,354 | 61.00 | 174,674 |
| July 1, 2006 - Sept. 30, 2007 | 414,855,564 | 32.44 | 47,975 |
| On or after Oct. 1, 2007 | 6,212,591 | 0.49 | 877 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

**Distribution of the Student Loans by Guarantee Agency as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| American Student Assistance (Massachusetts) | $ 211,593,527 | 16.54 | 17,926 |
| California Student Aid Commission | 57,217,081 | 4.47 | 18,042 |
| Great Lakes Higher Education Guaranty Corporation | 91,580,758 | 7.16 | 9,956 |
| Kentucky Higher Education Assistance Authority | 1,413,908 | 0.11 | 180 |
| Pennsylvania Higher Education Assistance Agency | 498,107,623 | 38.94 | 93,364 |
| Texas Guaranteed Student Loan Corporation | 244,435,078 | 19.11 | 76,378 |
| United Student Aid Funds | 73,744,465 | 5.77 | 13,460 |
| Others | 100,938,873 | 7.89 | 24,443 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| ACS Commercial Education & Financial Services | $ 556,452,036 | 43.51 | 122,782 |
| Chase Student Loan Servicing, LLC | 25,576,121 | 2.00 | 2,678 |
| Great Lakes Educational Loan Services, Inc | 89,733,207 | 7.02 | 9,743 |
| Pennsylvania Higher Education Assistance Agency | 545,479,123 | 42.65 | 108,213 |
| Sallie Mae Servicing | 61,790,826 | 4.83 | 10,333 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Subsidized | $ 589,596,879 | 46.10 | 140,448 |
| Unsubsidized | 689,434,434 | 53.90 | 113,301 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 4,415,957 | 0.35 | 17,547 |
| 500.00 - 999.99 | 16,071,883 | 1.26 | 21,109 |
| 1,000.00 - 1,999.99 | 72,871,443 | 5.70 | 48,880 |
| 2,000.00 - 2,999.99 | 137,462,129 | 10.75 | 54,357 |
| 3,000.00 - 3,999.99 | 94,180,741 | 7.36 | 27,302 |
| 4,000.00 - 4,999.99 | 89,055,256 | 6.96 | 19,725 |
| 5,000.00 - 5,999.99 | 94,234,297 | 7.37 | 17,176 |
| 6,000.00 - 6,999.99 | 41,967,188 | 3.28 | 6,556 |
| 7,000.00 - 7,999.99 | 28,461,190 | 2.23 | 3,791 |
| 8,000.00 - 8,999.99 | 51,644,779 | 4.04 | 6,074 |
| 9,000.00 - 9,999.99 | 29,035,512 | 2.27 | 3,064 |
| 10,000.00 - 14,999.99 | 130,242,331 | 10.18 | 10,728 |
| 15,000.00 - 19,999.99 | 103,298,854 | 8.08 | 5,987 |
| 20,000.00 - 24,999.99 | 89,106,225 | 6.97 | 3,990 |
| 25,000.00 - 29,999.99 | 66,403,903 | 5.19 | 2,442 |
| 30,000.00 - 34,999.99 | 49,266,447 | 3.85 | 1,519 |
| 35,000.00 - 39,999.99 | 38,240,391 | 2.99 | 1,024 |
| 40,000.00 - 44,999.99 | 35,415,631 | 2.77 | 839 |
| 45,000.00 - 49,999.99 | 18,675,122 | 1.46 | 394 |
| 50,000.00 - 54,999.99 | 17,126,285 | 1.34 | 327 |
| 55,000.00 - 59,999.99 | 12,580,882 | 0.98 | 219 |
| 60,000.00 - 64,999.99 | 7,848,357 | 0.61 | 126 |
| 65,000.00 - 69,999.99 | 8,129,420 | 0.64 | 121 |
| 70,000.00 - 74,999.99 | 6,671,895 | 0.52 | 92 |
| 75,000.00 - 79,999.99 | 6,022,572 | 0.47 | 78 |
| 80,000.00 - 84,999.99 | 4,617,284 | 0.36 | 56 |
| 85,000.00 - 89,999.99 | 3,323,832 | 0.26 | 38 |
| 90,000.00 - 94,999.99 | 3,141,256 | 0.25 | 34 |
| 95,000.00 - 99,999.99 | 2,236,961 | 0.17 | 23 |
| 100,000.00 - 109,999.99 | 3,669,137 | 0.29 | 35 |
| 110,000.00 - 119,999.99 | 2,081,052 | 0.16 | 18 |
| 120,000.00 - 129,999.99 | 3,263,518 | 0.26 | 26 |
| 130,000.00 - 139,999.99 | 2,145,794 | 0.17 | 16 |
| 140,000.00 - 149,999.99 | 1,597,062 | 0.12 | 11 |
| 150,000.00 or greater | 4,526,726 | 0.35 | 25 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 6,155,515 | 0.48 | 675 |
| Alaska | 1,284,621 | 0.10 | 196 |
| Arizona | 12,841,937 | 1.00 | 1,841 |
| Arkansas | 4,487,528 | 0.35 | 601 |
| California | 104,081,673 | 8.14 | 20,790 |
| Colorado | 9,082,566 | 0.71 | 1,098 |
| Connecticut | 16,866,920 | 1.32 | 3,325 |
| Delaware | 6,533,699 | 0.51 | 1,883 |
| Florida | 29,723,140 | 2.32 | 4,366 |
| Georgia | 18,553,004 | 1.45 | 1,951 |
| Hawaii | 2,951,899 | 0.23 | 342 |
| Idaho | 1,978,194 | 0.15 | 308 |
| Illinois | 20,540,922 | 1.61 | 1,919 |
| Indiana | 7,716,372 | 0.60 | 725 |
| Iowa | 2,743,206 | 0.21 | 312 |
| Kansas | 6,228,789 | 0.49 | 973 |
| Kentucky | 6,060,923 | 0.47 | 717 |
| Louisiana | 9,308,475 | 0.73 | 1,676 |
| Maine | 3,233,382 | 0.25 | 784 |
| Maryland | 20,624,301 | 1.61 | 3,409 |
| Massachusetts | 29,689,116 | 2.32 | 6,953 |
| Michigan | 10,604,323 | 0.83 | 1,081 |
| Minnesota | 9,565,273 | 0.75 | 896 |
| Mississippi | 3,873,571 | 0.30 | 361 |
| Missouri | 13,365,006 | 1.04 | 1,882 |
| Montana | 1,415,951 | 0.11 | 189 |
| Nebraska | 2,454,852 | 0.19 | 330 |
| Nevada | 4,210,401 | 0.33 | 798 |
| New Hampshire | 4,264,188 | 0.33 | 815 |
| New Jersey | 40,875,396 | 3.20 | 7,528 |
| New Mexico | 4,846,211 | 0.38 | 836 |
| New York | 118,730,246 | 9.28 | 19,704 |
| North Carolina | 14,333,541 | 1.12 | 2,170 |
| North Dakota | 656,212 | 0.05 | 82 |
| Ohio | 27,764,370 | 2.17 | 4,146 |
| Oklahoma | 5,656,078 | 0.44 | 798 |
| Oregon | 10,432,293 | 0.82 | 1,254 |
| Pennsylvania | 189,892,321 | 14.85 | 55,875 |
| Rhode Island | 3,548,623 | 0.28 | 775 |
| South Carolina | 8,279,866 | 0.65 | 941 |
| South Dakota | 701,992 | 0.05 | 81 |
| Tennessee | 7,069,402 | 0.55 | 830 |
| Texas | 396,486,338 | 31.00 | 82,170 |
| Utah | 2,603,501 | 0.20 | 325 |
| Vermont | 1,195,767 | 0.09 | 186 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Virginia | 20,307,726 | 1.59 | 3,553 |
| Washington | 11,355,460 | 0.89 | 1,400 |
| West Virginia | 11,702,389 | 0.91 | 4,138 |
| Wisconsin | 18,576,960 | 1.45 | 3,140 |
| Wyoming | 834,822 | 0.07 | 94 |
| Other | 12,742,053 | 1.00 | 2,527 |
| Total | $ 1,279,031,312 | 100.00 | 253,749 |

## Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 21.8 | 6.0 | - | - | 120.0 |
| Grace | - | 3.6 | - | - | 120.0 |
| Deferment | - | - | 9.6 | - | 175.4 |
| Forbearance | - | - | - | 2.0 | 179.4 |
| Repayment | - | - | - | - | 167.1 |
| Claims | - | - | - | - | 114.8 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.99%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.50%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BHEA 93AC Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 93AC Indenture to liabilities represented by the principal amount of outstanding securities issued under the BHEA 93AC Indenture was equal to 97.26%. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 93AC Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BHEA 93AC Indenture was equal to 109.29%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 2:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

### AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF JUNE 1, 2006, BETWEEN ACADEMIC FINANCE CORPORATION AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

**Indenture**

Academic Finance Corporation ("AFC") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of June 1, 2006, by and among AFC, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "AFC Indenture"). AFC is a Texas non-profit corporation located in Waco, Texas.

**Outstanding Senior Securities Under AFC Indenture**

As of July 31, 2008, the following senior securities were outstanding under the AFC Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 003890AA8 | Series 2005 A-1 | $42,400,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 003890AC4 | Series 2006 A-1 | 53,800,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $96,200,000 | | | |

**Outstanding Subordinate Securities Under AFC Indenture**

As of July 31, 2008, the following subordinate securities were outstanding under the AFC Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 003890AB6 | Series 2005 B-1 | $14,100,000 | June 1, 2041 | Taxable Auction Rate | 28 days |

**Senior Note Total Consideration**

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the AFC Indenture" is $940 per $1,000 principal amount tendered.

**Interest Rates**

The interest rate for each series of auction rate securities issued under the AFC Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the AFC Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the AFC Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the AFC Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the AFC Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the AFC Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the AFC Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the AFC Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by AFC. AFC has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the AFC Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the AFC Indenture.

**Other Obligations**

There are no other obligations secured under the AFC Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the AFC Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the AFC Indenture, including a collection account, a principal distribution account, an interest account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the AFC Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 58,154 |
| Principal Distribution Account | 1,045,749 |
| Interest Account | 350,607 |
| Operating Account* | 8,576 |
| Reserve Account | 968,500 |
| Total | $2,431,586 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the AFC Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under AFC Indenture.

Expenses. Under the AFC Indenture, AFC incurred $1,445,075 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the AFC Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the AFC Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $105,415,582 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.5% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 1.75% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 1.5% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the AFC Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $105,415,582 |
| Number of Borrowers (1) | 15,220 |
| Average Outstanding Principal Balance Per Borrower | $ 6,926 |
| Number of Loans | 28,982 |
| Average Outstanding Principal Balance Per Loan | $ 3,637 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 85 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.59% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) AFC determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) AFC determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 2.21 – 2.99 | $ 4,878 | 0.00 | 3 |
| 3.00 – 3.49 | 267,026 | 0.25 | 32 |
| 3.50 – 3.99 | 44,437,454 | 42.15 | 14,034 |
| 4.00 – 4.49 | 23,073,709 | 21.89 | 6,789 |
| 4.50 – 4.99 | 287,641 | 0.27 | 57 |
| 5.00 – 5.49 | 16,632,031 | 15.78 | 1,962 |
| 5.50 – 5.99 | 228,340 | 0.22 | 23 |
| 6.50 – 6.99 | 20,411,705 | 19.36 | 6,077 |
| 8.50 or greater | 72,797 | 0.07 | 5 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

(1) AFC determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 80,120 | 0.08 | 6 |
| HEAL | 1,472,855 | 1.40 | 47 |
| Other | 163,102 | 0.15 | 41 |
| PLUS/SLS | 16,935,417 | 16.07 | 1,973 |
| Stafford | 86,764,089 | 82.31 | 26,915 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 24 | $ 10,909,581 | 10.35 | 3,865 |
| 25 – 36 | 1,171,428 | 1.11 | 691 |
| 37 – 48 | 1,454,900 | 1.38 | 565 |
| 49 – 60 | 14,541,919 | 13.79 | 3,686 |
| 61 – 72 | 5,080,818 | 4.82 | 1,454 |
| 73 – 84 | 5,154,291 | 4.89 | 1,380 |
| 85 – 96 | 11,136,469 | 10.56 | 2,652 |
| 97 – 108 | 29,979,723 | 28.44 | 7,955 |
| 109 – 120 | 24,110,115 | 22.87 | 6,634 |
| 121 – 132 | 138,116 | 0.13 | 28 |
| 133 – 144 | 76,703 | 0.07 | 9 |
| 145 – 156 | 108,142 | 0.10 | 8 |
| 157 – 168 | 39,577 | 0.04 | 4 |
| 169 – 180 | 76,637 | 0.07 | 4 |
| 181 – 192 | 69,219 | 0.07 | 10 |
| 193 – 220 | 25,382 | 0.02 | 2 |
| 221 – 260 | 972,987 | 0.92 | 19 |
| 261 – 300 | 304,457 | 0.29 | 14 |
| 341 or greater | 65,118 | 0.06 | 2 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

(1) AFC determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Claims* | $ 806,853 | 0.77 | 223 |
| Deferment | 8,135,361 | 7.72 | 2,363 |
| Forbearance | 5,764,260 | 5.47 | 1,219 |
| Grace | 16,080,750 | 15.25 | 4,827 |
| Repayment | 39,164,650 | 37.15 | 8,777 |
| School | 35,463,707 | 33.64 | 11,573 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 – 30 | $ | 96,767,597 | 91.80 | 26,906 |
| 31 – 60 | | 2,113,749 | 2.01 | 466 |
| 61 – 90 | | 1,345,134 | 1.28 | 312 |
| 91 – 120 | | 927,916 | 0.88 | 259 |
| 121 – 150 | | 782,463 | 0.74 | 150 |
| 151 – 180 | | 508,705 | 0.48 | 101 |
| 181 or greater* | | 2,970,017 | 2.82 | 788 |
| Total | $ | 105,415,582 | 100.00 | 28,982 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 209,246 | 0.20 | 26 |
| Oct. 1, 1993 - Dec 31, 1999 | | 1,889,259 | 1.79 | 525 |
| Jan. 1, 2000 - June 30, 2006 | | 82,772,356 | 78.52 | 22,336 |
| July 1, 2006 - Sept. 30, 2007 | | 20,525,556 | 19.47 | 6,092 |
| On or after Oct. 1, 2007 | | 19,165 | 0.02 | 3 |
| Total | $ | 105,415,582 | 100.00 | 28,982 |

**Distribution of the Student Loans by Guarantee Agency as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 20,426,575 | 19.38 | 6,462 |
| California Student Aid Commission | | 20,010 | 0.02 | 3 |
| Great Lakes Higher Education Guaranty Corporation | | 36,148 | 0.03 | 1 |
| Kentucky Higher Education Assistance Authority | | 114,823 | 0.11 | 26 |
| Pennsylvania Higher Education Assistance Agency | | 7,791,769 | 7.39 | 2,178 |
| Texas Guaranteed Student Loan Corporation | | 346,826 | 0.33 | 130 |
| United Student Aid Funds | | 9,231,151 | 8.76 | 2,971 |
| Others | | 67,448,279 | 63.98 | 17,211 |
| Total | $ | 105,415,582 | 100.00 | 28,982 |

**Distribution of the Student Loans by Subservicer as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 76,111,722 | 72.20 | 20,210 |
| Pennsylvania Higher Education Assistance Agency | | 9,643,461 | 9.15 | 2,313 |
| Sallie Mae Servicing | | 19,660,398 | 18.65 | 6,459 |
| Total | $ | 105,415,582 | 100.00 | 28,982 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Subsidized | $ 49,154,165 | 46.63 | 17,125 |
| Unsubsidized | 56,261,417 | 53.37 | 11,857 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 – 499.99 | $ 196,363 | 0.19 | 684 |
| 500.00 – 999.99 | 898,374 | 0.85 | 1,166 |
| 1,000.00 – 1,999.99 | 6,043,045 | 5.73 | 4,127 |
| 2,000.00 – 2,999.99 | 27,532,368 | 26.12 | 10,682 |
| 3,000.00 – 3,999.99 | 15,037,982 | 14.27 | 4,385 |
| 4,000.00 – 4,999.99 | 15,121,715 | 14.34 | 3,361 |
| 5,000.00 – 5,999.99 | 9,654,316 | 9.16 | 1,752 |
| 6,000.00 – 6,999.99 | 2,414,779 | 2.29 | 375 |
| 7,000.00 – 7,999.99 | 2,695,297 | 2.56 | 358 |
| 8,000.00 – 8,999.99 | 5,812,631 | 5.51 | 686 |
| 9,000.00 – 9,999.99 | 1,862,296 | 1.77 | 197 |
| 10,000.00 – 14,999.99 | 9,622,886 | 9.13 | 823 |
| 15,000.00 – 19,999.99 | 3,937,947 | 3.74 | 230 |
| 20,000.00 – 24,999.99 | 2,031,593 | 1.93 | 92 |
| 25,000.00 – 29,999.99 | 893,366 | 0.85 | 33 |
| 30,000.00 – 34,999.99 | 398,546 | 0.38 | 12 |
| 35,000.00 – 39,999.99 | 72,257 | 0.07 | 2 |
| 40,000.00 – 44,999.99 | 166,828 | 0.16 | 4 |
| 45,000.00 – 49,999.99 | 48,401 | 0.05 | 1 |
| 50,000.00 – 54,999.99 | 53,826 | 0.05 | 1 |
| 55,000.00 – 59,999.99 | 168,363 | 0.16 | 3 |
| 65,000.00 – 69,999.99 | 68,947 | 0.07 | 1 |
| 70,000.00 – 74,999.99 | 73,348 | 0.07 | 1 |
| 75,000.00 – 79,999.99 | 78,494 | 0.07 | 1 |
| 80,000.00 – 84,999.99 | 82,328 | 0.08 | 1 |
| 90,000.00 – 94,999.99 | 91,200 | 0.09 | 1 |
| 95,000.00 – 99,999.99 | 96,506 | 0.09 | 1 |
| 130,000.00 or greater | 261,578 | 0.25 | 2 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 348,706 | 0.33 | 116 |
| Alaska | 29,371 | 0.03 | 5 |
| Arizona | 137,253 | 0.13 | 40 |
| Arkansas | 48,749 | 0.05 | 8 |
| California | 1,806,286 | 1.71 | 349 |
| Colorado | 190,358 | 0.18 | 40 |
| Connecticut | 7,145,830 | 6.78 | 2,309 |
| Delaware | 271,104 | 0.26 | 82 |
| Florida | 5,058,009 | 4.80 | 1,714 |
| Georgia | 1,000,735 | 0.95 | 192 |
| Hawaii | 55,739 | 0.05 | 9 |
| Idaho | 36,957 | 0.04 | 7 |
| Illinois | 314,258 | 0.30 | 67 |
| Indiana | 180,491 | 0.17 | 38 |
| Iowa | 121,959 | 0.12 | 19 |
| Kansas | 28,829 | 0.03 | 8 |
| Kentucky | 85,462 | 0.08 | 19 |
| Louisiana | 174,440 | 0.17 | 33 |
| Maine | 492,704 | 0.47 | 122 |
| Maryland | 1,056,660 | 1.00 | 301 |
| Massachusetts | 15,965,119 | 15.14 | 5,084 |
| Michigan | 340,712 | 0.32 | 72 |
| Minnesota | 121,848 | 0.12 | 35 |
| Mississippi | 52,524 | 0.05 | 12 |
| Missouri | 168,481 | 0.16 | 42 |
| Montana | 18,306 | 0.02 | 6 |
| Nebraska | 23,424 | 0.02 | 11 |
| Nevada | 45,201 | 0.04 | 13 |
| New Hampshire | 805,641 | 0.76 | 253 |
| New Jersey | 6,599,248 | 6.26 | 1,645 |
| New Mexico | 68,995 | 0.07 | 13 |
| New York | 50,203,774 | 47.62 | 13,018 |
| North Carolina | 523,298 | 0.50 | 142 |
| North Dakota | 13,410 | 0.01 | 4 |
| Ohio | 467,139 | 0.44 | 129 |
| Oklahoma | 131,708 | 0.12 | 39 |
| Oregon | 184,072 | 0.17 | 40 |
| Pennsylvania | 5,788,804 | 5.49 | 1,591 |
| Rhode Island | 488,651 | 0.46 | 167 |
| South Carolina | 288,358 | 0.27 | 55 |
| Tennessee | 151,011 | 0.14 | 50 |
| Texas | 989,782 | 0.94 | 210 |
| Utah | 50,754 | 0.05 | 10 |
| Vermont | 175,956 | 0.17 | 55 |
| Virginia | 706,691 | 0.67 | 179 |
| Washington | 400,837 | 0.38 | 57 |
| West Virginia | 269,563 | 0.26 | 97 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Wisconsin | 171,805 | 0.16 | 48 |
| Wyoming | 10,167 | 0.01 | 6 |
| Other | 1,606,400 | 1.52 | 421 |
| Total | $ 105,415,582 | 100.00 | 28,982 |

## Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 18.6 | 6.0 | - | - | 120.0 |
| Grace | - | 3.9 | - | - | 120.0 |
| Deferment | - | - | 16.6 | - | 96.6 |
| Forbearance | - | - | - | 4.2 | 101.2 |
| Repayment | - | - | - | - | 89.6 |
| Claims | - | - | - | - | 93.9 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.88%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.39%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the AFC Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the AFC Indenture to liabilities represented by the principal amount of outstanding securities issued under the AFC Indenture was equal to 98.17%. As of July 31, 2008, the ratio of assets in the trust estate under the AFC Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the AFC Indenture was equal to 112.56%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 3:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF JUNE 1, 2006, BETWEEN EDUCATIONAL FUNDING SERVICES, INC. AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Educational Funding Services, Inc., (as successor to EFSI and herein referred to as the "Corporation") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of June 1, 2006, by and among the Corporation, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "EFSI 2003 Indenture"). The Corporation is a non-profit public benefit corporation existing under the laws of the State of California.

### Outstanding Senior Securities Under EFSI 2003 Indenture

As of July 31, 2008, the following senior securities were outstanding under the EFSI 2003 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 268440AE4 | Series 2003 A-3 | $ 14,500,000 | June 1, 2039 | Taxable Auction Rate | 28 days |
| 268440AG9 | Series 2004 A-1 | 58,400,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 268440AJ3 | Series 2005 A-1 | 54,000,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 268440AK0 | Series 2005 A-2 | 54,000,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 268440AL8 | Series 2005 A-3 | 54,000,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 268440AM6 | Series 2005 A-4 | 56,800,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 268440AP9 | Series 2006 A-1 | 41,800,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $333,500,000 | | | |

### Outstanding Subordinate Securities Under EFSI 2003 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the EFSI 2003 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 268440AF1 | Series 2003 B-1 | $39,700,000 | June 1, 2039 | Taxable Auction Rate | 28 days |
| 268440AH7 | Series 2004 B-1 | 6,000,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 268440AN4 | Series 2005 B-1 | 41,500,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| Total | | $87,200,000 | | | |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the EFSI 2003 Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the EFSI 2003 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the EFSI 2003 Indenture. Holders of such securities should contact their

broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the EFSI 2003 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the EFSI 2003 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the EFSI 2003 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the EFSI 2003 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the EFSI 2003 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the EFSI 2003 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by the Corporation. The Corporation has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the EFSI 2003 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the EFSI 2003 Indenture.

**Other Obligations**

There are no other obligations secured under the EFSI 2003 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the EFSI 2003 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the EFSI 2003 Indenture, including a collection account, a principal distribution account, an interest account, a reserve account and a student loan account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the EFSI 2003 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 657,782 |
| Principal Distribution Account | 4,687,110 |
| Interest Account | 1,363,004 |
| Reserve Account | 4,102,500 |
| Operating Account* | 32,842 |
| Student Loan Account | 14,563 |
| Total** | $10,857,800 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the EFSI 2003 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under EFSI 2003 Indenture.

** The dollar amount set forth under "Total" in the table above may not total 100% of the account balances set forth in the table above due to rounding.

Expenses. Under the EFSI 2003 Indenture, the Corporation incurred $5,967,552 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the EFSI 2003 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the EFSI 2003 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $397,662,962 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36, 48 or 60 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 2.0% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the EFSI 2003 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $397,662,962 |
| Number of Borrowers (1) | 28,710 |
| Average Outstanding Principal Balance Per Borrower | $ 13,851 |
| Number of Loans | 64,872 |
| Average Outstanding Principal Balance Per Loan | $ 6,130 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 171 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.42% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) The Corporation determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) The Corporation determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.63 - 2.99 | $ 48,406,378 | 12.17 | 2,495 |
| 3.00 - 3.49 | 43,393,401 | 10.91 | 3,444 |
| 3.50 - 3.99 | 105,487,939 | 26.53 | 21,539 |
| 4.00 - 4.49 | 98,705,316 | 24.82 | 24,659 |
| 4.50 - 4.99 | 14,276,751 | 3.59 | 901 |
| 5.00 - 5.49 | 22,496,079 | 5.66 | 4,161 |
| 5.50 - 5.99 | 2,968,340 | 0.75 | 194 |
| 6.00 - 6.49 | 3,808,873 | 0.96 | 135 |
| 6.50 - 6.99 | 14,320,534 | 3.60 | 3,972 |
| 7.00 - 7.49 | 2,016,816 | 0.51 | 139 |
| 7.50 - 7.99 | 4,389,489 | 1.10 | 310 |
| 8.00 - 8.49 | 16,186,571 | 4.07 | 1,323 |
| 8.50 or greater | 21,206,475 | 5.33 | 1,600 |
| Total | $ 397,662,962 | 100.00 | 64,872 |

(1) The Corporation determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 226,179,432 | 56.88 | 14,063 |
| PLUS/SLS | 12,622,647 | 3.17 | 1,784 |
| Stafford | 158,860,883 | 39.95 | 49,025 |
| Total | $ 397,662,962 | 100.00 | 64,872 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 12,934,053 | 3.25 | 4,012 |
| 25 - 36 | 3,210,687 | 0.81 | 1,180 |
| 37 - 48 | 4,485,685 | 1.13 | 1,455 |
| 49 - 60 | 7,835,719 | 1.97 | 2,442 |
| 61 - 72 | 13,668,465 | 3.44 | 4,025 |
| 73 - 84 | 13,461,121 | 3.39 | 3,575 |
| 85 - 96 | 21,505,545 | 5.41 | 4,384 |
| 97 - 108 | 31,666,774 | 7.96 | 8,051 |
| 109 - 120 | 91,345,993 | 22.97 | 25,384 |
| 121 - 132 | 7,712,452 | 1.94 | 928 |
| 133 - 144 | 11,020,618 | 2.77 | 1,178 |
| 145 - 156 | 7,648,141 | 1.92 | 714 |
| 157 - 168 | 6,193,149 | 1.56 | 541 |
| 169 - 180 | 14,219,654 | 3.58 | 1,160 |
| 181 - 192 | 8,033,398 | 2.02 | 553 |
| 193 - 220 | 25,702,382 | 6.46 | 1,697 |
| 221 - 260 | 28,939,708 | 7.28 | 1,421 |
| 261 - 300 | 27,492,419 | 6.91 | 1,025 |
| 301 - 340 | 23,916,548 | 6.01 | 510 |
| 341 or greater | 36,670,452 | 9.22 | 637 |
| Total | $ 397,662,962 | 100.00 | 64,872 |

(1) The Corporation determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 2,446,626 | 0.62 | 602 |
| Deferment | | 63,164,028 | 15.88 | 9,123 |
| Forbearance | | 41,018,000 | 10.31 | 5,788 |
| Grace | | 11,456,362 | 2.88 | 3,289 |
| Repayment | | 246,877,261 | 62.08 | 37,070 |
| School | | 32,700,685 | 8.22 | 9,000 |
| Total | $ | 397,662,962 | 100.00 | 64,872 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 30 | $ | 358,981,621 | 90.27 | 57,164 |
| 31 - 60 | | 12,824,140 | 3.22 | 2,024 |
| 61 - 90 | | 4,424,831 | 1.11 | 844 |
| 91 - 120 | | 4,332,919 | 1.09 | 869 |
| 121 - 150 | | 3,873,443 | 0.97 | 772 |
| 151 - 180 | | 2,710,665 | 0.68 | 570 |
| 181 or greater* | | 10,515,344 | 2.64 | 2,629 |
| Total | $ | 397,662,962 | 100.00 | 64,872 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 4,316,476 | 1.09 | 679 |
| Oct. 1, 1993 - Dec 31, 1999 | | 49,987,488 | 12.57 | 8,055 |
| Jan. 1, 2000 - June 30, 2006 | | 326,772,498 | 82.17 | 51,898 |
| July 1, 2006 - Sept. 30, 2007 | | 16,586,501 | 4.17 | 4,240 |
| Total | $ | 397,662,962 | 100.00 | 64,872 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 13,886,229 | 3.49 | 787 |
| California Student Aid Commission | | 58,167,480 | 14.63 | 19,133 |
| Great Lakes Higher Education Guaranty Corporation | | 42,843,027 | 10.77 | 3,214 |
| Kentucky Higher Education Assistance Authority | | 34,174 | 0.01 | 2 |
| Pennsylvania Higher Education Assistance Agency | | 176,086,641 | 44.28 | 11,619 |
| Texas Guaranteed Student Loan Corporation | | 26,872,523 | 6.76 | 8,496 |
| United Student Aid Funds | | 32,769,974 | 8.24 | 7,179 |
| Others | | 47,002,913 | 11.82 | 14,442 |
| Total | $ | 397,662,962 | 100.00 | 64,872 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 78,588,874 | 19.76 | 18,892 |
| Chase Student Loan Servicing, LLC | | 34,708,250 | 8.73 | 2,927 |
| Great Lakes Educational Loan Services, Inc | | 11,457,698 | 2.88 | 489 |
| Pennsylvania Higher Education Assistance Agency | | 238,512,498 | 59.98 | 32,531 |
| Sallie Mae Servicing | | 34,395,643 | 8.65 | 10,033 |
| Total | $ | 397,662,962 | 100.00 | 64,872 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 179,857,509 | 45.23 | 35,092 |
| Unsubsidized | | 217,805,454 | 54.77 | 29,780 |
| Total | $ | 397,662,962 | 100.00 | 64,872 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 747,610 | 0.19 | 2,891 |
| 500.00 - 999.99 | 2,968,320 | 0.75 | 3,870 |
| 1,000.00 - 1,999.99 | 13,856,221 | 3.48 | 9,249 |
| 2,000.00 - 2,999.99 | 37,683,680 | 9.48 | 14,733 |
| 3,000.00 - 3,999.99 | 27,908,644 | 7.02 | 8,084 |
| 4,000.00 - 4,999.99 | 30,862,445 | 7.76 | 6,774 |
| 5,000.00 - 5,999.99 | 24,134,642 | 6.07 | 4,391 |
| 6,000.00 - 6,999.99 | 11,753,086 | 2.96 | 1,835 |
| 7,000.00 - 7,999.99 | 9,096,029 | 2.29 | 1,214 |
| 8,000.00 - 8,999.99 | 14,505,188 | 3.65 | 1,705 |
| 9,000.00 - 9,999.99 | 9,014,651 | 2.27 | 952 |
| 10,000.00 - 14,999.99 | 43,175,718 | 10.86 | 3,525 |
| 15,000.00 - 19,999.99 | 33,658,486 | 8.46 | 1,946 |
| 20,000.00 - 24,999.99 | 26,311,081 | 6.62 | 1,181 |
| 25,000.00 - 29,999.99 | 19,431,906 | 4.89 | 714 |
| 30,000.00 - 34,999.99 | 14,630,642 | 3.68 | 453 |
| 35,000.00 - 39,999.99 | 12,839,077 | 3.23 | 344 |
| 40,000.00 - 44,999.99 | 10,114,017 | 2.54 | 239 |
| 45,000.00 - 49,999.99 | 7,758,246 | 1.95 | 163 |
| 50,000.00 - 54,999.99 | 6,949,589 | 1.75 | 133 |
| 55,000.00 - 59,999.99 | 5,380,397 | 1.35 | 94 |
| 60,000.00 - 64,999.99 | 3,565,399 | 0.90 | 57 |
| 65,000.00 - 69,999.99 | 4,245,018 | 1.07 | 63 |
| 70,000.00 - 74,999.99 | 2,892,521 | 0.73 | 40 |
| 75,000.00 - 79,999.99 | 2,635,476 | 0.66 | 34 |
| 80,000.00 - 84,999.99 | 1,981,992 | 0.50 | 24 |
| 85,000.00 - 89,999.99 | 1,223,246 | 0.31 | 14 |
| 90,000.00 - 94,999.99 | 1,669,184 | 0.42 | 18 |
| 95,000.00 - 99,999.99 | 1,557,093 | 0.39 | 16 |
| 100,000.00 - 109,999.99 | 2,097,143 | 0.53 | 20 |
| 110,000.00 - 119,999.99 | 3,232,139 | 0.81 | 28 |
| 120,000.00 - 129,999.99 | 1,866,416 | 0.47 | 15 |
| 130,000.00 - 139,999.99 | 2,815,151 | 0.71 | 21 |
| 140,000.00 - 149,999.99 | 1,721,768 | 0.43 | 12 |
| 150,000.00 or greater | 3,380,743 | 0.85 | 20 |
| Total | $ 397,662,962 | 100.00 | 64,872 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 2,348,443 | 0.59 | 233 |
| Alaska | 296,495 | 0.07 | 24 |
| Arizona | 3,465,493 | 0.87 | 411 |
| Arkansas | 4,116,314 | 1.04 | 930 |
| California | 90,741,620 | 22.82 | 21,941 |
| Colorado | 3,242,913 | 0.82 | 327 |
| Connecticut | 3,844,893 | 0.97 | 451 |
| Delaware | 1,428,636 | 0.36 | 143 |
| Florida | 12,166,916 | 3.06 | 1,178 |
| Georgia | 6,733,762 | 1.69 | 763 |
| Hawaii | 634,641 | 0.16 | 149 |
| Idaho | 1,072,484 | 0.27 | 103 |
| Illinois | 7,382,469 | 1.86 | 556 |
| Indiana | 2,210,693 | 0.56 | 192 |
| Iowa | 1,128,813 | 0.28 | 118 |
| Kansas | 1,328,154 | 0.33 | 250 |
| Kentucky | 5,906,930 | 1.49 | 518 |
| Louisiana | 2,019,174 | 0.51 | 357 |
| Maine | 1,909,280 | 0.48 | 319 |
| Maryland | 5,248,792 | 1.32 | 556 |
| Massachusetts | 7,579,509 | 1.91 | 713 |
| Michigan | 4,047,561 | 1.02 | 307 |
| Minnesota | 2,933,019 | 0.74 | 211 |
| Mississippi | 943,903 | 0.24 | 101 |
| Missouri | 5,598,002 | 1.41 | 1,368 |
| Montana | 333,050 | 0.08 | 42 |
| Nebraska | 837,106 | 0.21 | 74 |
| Nevada | 2,732,352 | 0.69 | 551 |
| New Hampshire | 1,786,072 | 0.45 | 122 |
| New Jersey | 12,081,807 | 3.04 | 1,317 |
| New Mexico | 1,304,160 | 0.33 | 112 |
| New York | 48,388,902 | 12.17 | 11,008 |
| North Carolina | 4,716,105 | 1.19 | 565 |
| North Dakota | 310,380 | 0.08 | 20 |
| Ohio | 10,122,876 | 2.55 | 790 |
| Oklahoma | 2,676,392 | 0.67 | 583 |
| Oregon | 3,091,815 | 0.78 | 321 |
| Pennsylvania | 46,005,803 | 11.57 | 4,309 |
| Rhode Island | 1,627,529 | 0.41 | 279 |
| South Carolina | 2,221,953 | 0.56 | 204 |
| South Dakota | 196,540 | 0.05 | 26 |
| Tennessee | 2,292,527 | 0.58 | 196 |
| Texas | 47,543,934 | 11.96 | 9,483 |
| Utah | 1,060,055 | 0.27 | 122 |
| Vermont | 1,101,982 | 0.28 | 54 |
| Virginia | 5,775,698 | 1.45 | 561 |
| Washington | 3,848,912 | 0.97 | 430 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 1,396,629 | 0.35 | 121 |
| Wisconsin | 4,392,388 | 1.10 | 289 |
| Wyoming | 93,180 | 0.02 | 22 |
| Other | 13,395,906 | 3.37 | 1,052 |
| Total | $ 397,662,962 | 100.00 | 64,872 |

## Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 22.2 | 6.0 | - | - | 120.0 |
| Grace | - | 3.7 | - | - | 120.0 |
| Deferment | - | - | 6.5 | - | 206.0 |
| Forbearance | - | - | - | 1.7 | 196.5 |
| Repayment | - | - | - | - | 173.3 |
| Claims | - | - | - | - | 114.3 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.08%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.51%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the EFSI 2003 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the EFSI 2003 Indenture to liabilities represented by the principal amount of outstanding securities issued under the EFSI 2003 Indenture was equal to 97.56%. As of July 31, 2008, the ratio of assets in the trust estate under the EFSI 2003 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the EFSI 2003 Indenture was equal to 123.07%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 4:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF JUNE 1, 2006, BETWEEN FEDERATED STUDENT FINANCE CORPORATION AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Federated Student Finance Corporation ("FSFC") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of June 1, 2006, by and among FSFC, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "FSFC 2003 Indenture"). FSFC is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under FSFC 2003 Indenture

As of July 31, 2008, the following senior securities were outstanding under the FSFC 2003 Indenture:

| CUSIP | Series of Senior Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 31428NAD0 | Series 2004 A-1 | $ 8,100,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 31428NAE8 | Series 2004 A-2 | 43,000,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 31428NAF5 | Series 2004 A-3 | 54,200,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 31428NAH1 | Series 2005 A-1 | 55,900,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 31428NAK4 | Series 2006 A-1 | 38,200,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $199,400,000 | | | |

### Outstanding Subordinate Securities Under FSFC 2003 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the FSFC 2003 Indenture:

| CUSIP | Series of Subordinate Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 31428NAC2 | Series 2003 B-1 | $13,500,000 | June 1, 2039 | Taxable Auction Rate | 28 days |
| 31428NAG3 | Series 2004 B-1 | 19,000,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 31428NAJ7 | Series 2005 B-1 | 11,700,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| Total | | $44,200,000 | | | |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the FSFC 2003 Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the FSFC 2003 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the FSFC 2003 Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In

addition, holders of such securities should contact the trustee under the FSFC 2003 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the FSFC 2003 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the FSFC 2003 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the FSFC 2003 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the FSFC 2003 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the FSFC 2003 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by FSFC. FSFC has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the FSFC 2003 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the FSFC 2003 Indenture.

**Other Obligations**

There are no other obligations secured under the FSFC 2003 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the FSFC 2003 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the FSFC 2003 Indenture, including a collection account, a principal distribution account, an interest account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the FSFC 2003 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 556,536 |
| Principal Distribution Account | 2,468,512 |
| Interest Account | 778,254 |
| Operating Account* | 19,070 |
| Reserve Account | 2,340,500 |
| Total | $6,162,872 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the FSFC 2003 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under FSFC 2003 Indenture.

Expenses. Under the FSFC 2003 Indenture, FSFC incurred $3,424,870 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the FSFC 2003 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the FSFC 2003 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $230,089,689 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36, 48 or 60 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 0.25% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 3.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the FSFC 2003 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $230,089,689 |
| Number of Borrowers (1) | 19,669 |
| Average Outstanding Principal Balance Per Borrower | $ 11,698 |
| Number of Loans | 36,077 |
| Average Outstanding Principal Balance Per Loan | $ 6,378 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 175 |
| Weighted Average Annual Borrower Interest Rate (3) | 3.97% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) FSFC determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) FSFC determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.63 – 2.99 | $ 27,473,922 | 11.94 | 1,785 |
| 3.00 – 3.49 | 28,896,297 | 12.56 | 2,143 |
| 3.50 – 3.99 | 76,529,195 | 33.26 | 15,924 |
| 4.00 – 4.49 | 46,069,219 | 20.02 | 10,627 |
| 4.50 – 4.99 | 20,708,850 | 9.00 | 1,558 |
| 5.00 – 5.49 | 14,621,958 | 6.35 | 1,584 |
| 5.50 – 5.99 | 2,174,922 | 0.95 | 148 |
| 6.00 – 6.49 | 2,565,232 | 1.11 | 143 |
| 6.50 – 6.99 | 9,822,430 | 4.27 | 2,096 |
| 7.00 – 7.49 | 637,989 | 0.28 | 36 |
| 7.50 – 7.99 | 230,988 | 0.10 | 14 |
| 8.00 or greater | 358,686 | 0.16 | 19 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

(1) FSFC determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 125,376,133 | 54.49 | 8,660 |
| Other | 104,603 | 0.05 | 5 |
| PLUS/SLS | 9,472,379 | 4.12 | 1,294 |
| Stafford | 95,136,574 | 41.35 | 26,118 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 24 | $ 12,510,285 | 5.44 | 3,965 |
| 25 – 36 | 750,146 | 0.33 | 516 |
| 37 – 48 | 880,645 | 0.38 | 430 |
| 49 – 60 | 1,520,167 | 0.66 | 668 |
| 61 – 72 | 2,987,347 | 1.30 | 1,120 |
| 73 – 84 | 2,465,912 | 1.07 | 764 |
| 85 – 96 | 7,405,974 | 3.22 | 1,576 |
| 97 – 108 | 6,137,110 | 2.67 | 1,625 |
| 109 – 120 | 76,857,164 | 33.40 | 18,451 |
| 121 – 132 | 5,840,669 | 2.54 | 795 |
| 133 – 144 | 5,333,487 | 2.32 | 688 |
| 145 – 156 | 4,202,276 | 1.83 | 452 |
| 157 – 168 | 3,468,442 | 1.51 | 352 |
| 169 – 180 | 4,673,984 | 2.03 | 440 |
| 181 – 192 | 7,480,969 | 3.25 | 558 |
| 193 – 220 | 18,254,674 | 7.93 | 1,280 |
| 221 – 260 | 19,937,099 | 8.66 | 1,078 |
| 261 – 300 | 15,185,601 | 6.60 | 599 |
| 301 – 340 | 16,462,731 | 7.15 | 373 |
| 341 or greater | 17,735,006 | 7.71 | 347 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

(1) FSFC determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 781,406 | 0.34 | 201 |
| Deferment | | 39,458,738 | 17.15 | 5,388 |
| Forbearance | | 22,270,257 | 9.68 | 3,020 |
| Grace | | 11,259,768 | 4.89 | 2,695 |
| Repayment | | 128,934,285 | 56.04 | 17,156 |
| School | | 27,385,234 | 11.90 | 7,617 |
| Total | $ | 230,089,689 | 100.00 | 36,077 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 – 30 | $ | 212,487,290 | 92.35 | 32,735 |
| 31 – 60 | | 6,515,836 | 2.83 | 1,008 |
| 61 – 90 | | 2,306,917 | 1.00 | 441 |
| 91 – 120 | | 2,076,332 | 0.90 | 337 |
| 121 – 150 | | 1,283,502 | 0.56 | 255 |
| 151 – 180 | | 852,338 | 0.37 | 165 |
| 181 or greater* | | 4,567,474 | 1.99 | 1,136 |
| Total | $ | 230,089,689 | 100.00 | 36,077 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Oct. 1, 1993 - Dec 31, 1999 | $ | 62,672 | 0.03 | 33 |
| Jan. 1, 2000 - June 30, 2006 | | 211,368,064 | 91.86 | 33,193 |
| July 1, 2006 - Sept. 30, 2007 | | 18,658,953 | 8.11 | 2,851 |
| Total | $ | 230,089,689 | 100.00 | 36,077 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 5,378,519 | 2.34 | 621 |
| California Student Aid Commission | | 15,943 | 0.01 | 8 |
| Great Lakes Higher Education Guaranty Corporation | | 22,296,363 | 9.69 | 2,745 |
| Pennsylvania Higher Education Assistance Agency | | 170,410,049 | 74.06 | 24,299 |
| Texas Guaranteed Student Loan Corporation | | 1,083,901 | 0.47 | 243 |
| United Student Aid Funds | | 25,452,336 | 11.06 | 7,035 |
| Others | | 5,452,579 | 2.37 | 1,126 |
| Total | $ | 230,089,689 | 100.00 | 36,077 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| ACS Commercial Education & Financial Services | $ 10,337,120 | 4.49 | 1,227 |
| Great Lakes Educational Loan Services, Inc | 22,378,967 | 9.73 | 2,747 |
| Pennsylvania Higher Education Assistance Agency | 166,617,598 | 72.41 | 23,926 |
| Sallie Mae Servicing | 30,756,004 | 13.37 | 8,177 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Subsidized | $ 127,050,168 | 55.22 | 24,368 |
| Unsubsidized | 103,039,520 | 44.78 | 11,709 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 – 499.99 | $ 167,891 | 0.07 | 615 |
| 500.00 – 999.99 | 843,680 | 0.37 | 1,096 |
| 1,000.00 – 1,999.99 | 6,997,455 | 3.04 | 4,705 |
| 2,000.00 – 2,999.99 | 22,990,829 | 9.99 | 8,924 |
| 3,000.00 – 3,999.99 | 15,877,292 | 6.90 | 4,585 |
| 4,000.00 – 4,999.99 | 16,290,116 | 7.08 | 3,569 |
| 5,000.00 – 5,999.99 | 19,777,247 | 8.60 | 3,603 |
| 6,000.00 – 6,999.99 | 5,473,268 | 2.38 | 852 |
| 7,000.00 – 7,999.99 | 4,953,780 | 2.15 | 660 |
| 8,000.00 – 8,999.99 | 12,967,845 | 5.64 | 1,526 |
| 9,000.00 – 9,999.99 | 5,235,913 | 2.28 | 553 |
| 10,000.00 – 14,999.99 | 26,812,717 | 11.65 | 2,193 |
| 15,000.00 – 19,999.99 | 20,156,485 | 8.76 | 1,168 |
| 20,000.00 – 24,999.99 | 15,507,927 | 6.74 | 694 |
| 25,000.00 – 29,999.99 | 10,092,154 | 4.39 | 372 |
| 30,000.00 – 34,999.99 | 9,315,566 | 4.05 | 288 |
| 35,000.00 – 39,999.99 | 7,364,426 | 3.20 | 198 |
| 40,000.00 – 44,999.99 | 4,832,556 | 2.10 | 114 |
| 45,000.00 – 49,999.99 | 4,112,532 | 1.79 | 87 |
| 50,000.00 – 54,999.99 | 3,669,324 | 1.59 | 70 |
| 55,000.00 – 59,999.99 | 2,405,281 | 1.05 | 42 |
| 60,000.00 – 64,999.99 | 1,800,462 | 0.78 | 29 |
| 65,000.00 – 69,999.99 | 2,474,251 | 1.08 | 37 |
| 70,000.00 – 74,999.99 | 1,159,675 | 0.50 | 16 |
| 75,000.00 – 79,999.99 | 859,305 | 0.37 | 11 |
| 80,000.00 – 84,999.99 | 409,598 | 0.18 | 5 |
| 85,000.00 – 89,999.99 | 520,058 | 0.23 | 6 |
| 90,000.00 – 94,999.99 | 1,199,040 | 0.52 | 13 |
| 95,000.00 – 99,999.99 | 394,167 | 0.17 | 4 |
| 100,000.00 – 109,999.99 | 1,044,513 | 0.45 | 10 |
| 110,000.00 – 119,999.99 | 1,139,662 | 0.50 | 10 |
| 120,000.00 – 129,999.99 | 373,352 | 0.16 | 3 |
| 130,000.00 – 139,999.99 | 1,219,618 | 0.53 | 9 |
| 140,000.00 – 149,999.99 | 144,492 | 0.06 | 1 |
| 150,000.00 or greater | 1,507,212 | 0.66 | 9 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 2,267,902 | 0.99 | 340 |
| Alaska | 47,660 | 0.02 | 8 |
| Arizona | 1,304,821 | 0.57 | 117 |
| Arkansas | 442,618 | 0.19 | 48 |
| California | 18,769,959 | 8.16 | 1,451 |
| Colorado | 1,809,104 | 0.79 | 122 |
| Connecticut | 1,189,654 | 0.52 | 182 |
| Delaware | 833,632 | 0.36 | 86 |
| Florida | 9,230,108 | 4.01 | 1,385 |
| Georgia | 3,466,269 | 1.51 | 423 |
| Hawaii | 630,771 | 0.27 | 55 |
| Idaho | 746,072 | 0.32 | 54 |
| Illinois | 3,253,225 | 1.41 | 321 |
| Indiana | 1,111,548 | 0.48 | 107 |
| Iowa | 1,273,789 | 0.55 | 61 |
| Kansas | 494,547 | 0.21 | 66 |
| Kentucky | 1,094,299 | 0.48 | 94 |
| Louisiana | 15,701,120 | 6.82 | 4,340 |
| Maine | 388,848 | 0.17 | 40 |
| Maryland | 4,177,400 | 1.82 | 662 |
| Massachusetts | 2,441,748 | 1.06 | 212 |
| Michigan | 2,133,216 | 0.93 | 206 |
| Minnesota | 2,571,218 | 1.12 | 380 |
| Mississippi | 801,578 | 0.35 | 121 |
| Missouri | 979,616 | 0.43 | 88 |
| Montana | 409,313 | 0.18 | 31 |
| Nebraska | 281,713 | 0.12 | 33 |
| Nevada | 681,629 | 0.30 | 65 |
| New Hampshire | 339,281 | 0.15 | 31 |
| New Jersey | 3,921,558 | 1.70 | 519 |
| New Mexico | 367,769 | 0.16 | 34 |
| New York | 9,354,300 | 4.07 | 1,098 |
| North Carolina | 3,137,134 | 1.36 | 355 |
| North Dakota | 52,218 | 0.02 | 9 |
| Ohio | 11,482,292 | 4.99 | 1,045 |
| Oklahoma | 722,433 | 0.31 | 60 |
| Oregon | 2,843,139 | 1.24 | 224 |
| Pennsylvania | 25,486,794 | 11.08 | 4,629 |
| Rhode Island | 337,942 | 0.15 | 27 |
| South Carolina | 1,195,598 | 0.52 | 79 |
| South Dakota | 167,663 | 0.07 | 18 |
| Tennessee | 1,020,847 | 0.44 | 82 |
| Texas | 21,788,156 | 9.47 | 1,844 |
| Utah | 344,521 | 0.15 | 28 |
| Vermont | 123,883 | 0.05 | 15 |
| Virginia | 2,673,204 | 1.16 | 313 |
| Washington | 2,532,663 | 1.10 | 249 |
| West Virginia | 1,445,386 | 0.63 | 107 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Wisconsin | 2,365,311 | 1.03 | 335 |
| Wyoming | 120,665 | 0.05 | 6 |
| Other | 59,733,557 | 25.96 | 13,872 |
| Total | $ 230,089,689 | 100.00 | 36,077 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 21.9 | 6.0 | - | - | 120.0 |
| Grace | - | 4.0 | - | - | 120.0 |
| Deferment | - | - | 3.6 | - | 207.5 |
| Forbearance | - | - | - | 0.6 | 207.6 |
| Repayment | - | - | - | - | 187.2 |
| Claims | - | - | - | - | 122.0 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.96%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.52%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the FSFC 2003 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the FSFC 2003 Indenture to liabilities represented by the principal amount of outstanding securities issued under the FSFC 2003 Indenture was equal to 97.33%. As of July 31, 2008, the ratio of assets in the trust estate under the FSFC 2003 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the FSFC 2003 Indenture was equal to 118.91%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 5:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF DECEMBER 1, 2007, BETWEEN BRAZOS HIGHER EDUCATION AUTHORITY, INC. AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Higher Education Authority, Inc. ("BHEA") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of December 1, 2007, by and among BHEA, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "BHEA 93B Indenture"). BHEA is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BHEA 93B Indenture

As of July 31, 2008, the following senior securities were outstanding under the BHEA 93B Indenture:

| CUSIP | Series of Senior Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238FU7 | Series 1999 A-11 | $ 76,000,000 | Dec. 1, 2034 | Taxable Auction Rate | 7 days |
| 106238FV5 | Series 1999 A-12 | 84,700,000 | Dec. 1, 2034 | Taxable Auction Rate | 7 days |
| 106238GR3 | Series 2001 A-2 | 3,100,000 | May 1, 2009 | Tax-Exempt Auction Rate | 7 days |
| 106238GV4 | Series 2001 A-6 | 79,000,000 | July 1, 2036 | Taxable Auction Rate | 7 days |
| 106238JF6 | Series 2003 A-3 | 48,700,000 | June 1, 2023 | Tax-Exempt Auction Rate | 7 days |
| 106238JH2 | Series 2003 A-5 | 50,200,000 | June 1, 2038 | Taxable Auction Rate | 7 days |
| 106238JN9 | Series 2003 A-10 | 39,000,000 | July 1, 2039 | Taxable Auction Rate | 7 days |
| 106238JS8 | Series 2003 A-13 | 21,900,000 | Dec. 1, 2039 | Taxable Auction Rate | 7 days |
| 106238JU3 | Series 2003 A-15 | 43,100,000 | Dec. 1, 2039 | Taxable Auction Rate | 7 days |
| 106238KA5 | Series 2004 A-5 | 30,000,000 | Dec. 1, 2039 | Taxable Auction Rate | 7 days |
| 106238LA4 | Series 2005 A-1 | 78,500,000 | Dec. 1, 2039 | Tax-Exempt Auction Rate | 7 days |
| 106238LL0 | Series 2005 A-2 | 80,100,000 | Dec. 1, 2040 | Tax-Exempt Auction Rate | 7 days |
| 106238LM8 | Series 2005 A-3 | 60,000,000 | Dec. 1, 2040 | Tax-Exempt Auction Rate | 7 days |
| 106238LN6 | Series 2005 A-4 | 30,000,000 | Dec. 1, 2040 | Tax-Exempt Auction Rate | 7 days |
| 106238LP1 | Series 2005 A-5 | 130,900,000 | Dec. 1, 2040 | Taxable Reset Rate | N/A |
| 10620NBJ6 | Series 2006 A-11 | 50,000,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10620NBK3 | Series 2006 A-12 | 75,300,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10620NBL1 | Series 2006 A-13 | 75,300,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10620NBM9 | Series 2006 A-14 | 91,550,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10620NBN7 | Series 2006 A-15 | 91,550,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10620NBY3 | Series 2007 A-5 | 90,100,000 | June 1, 2039 | Taxable Variable Rate | N/A |
| 10620NBZ0 | Series 2007 A-6 | 90,100,000 | June 1, 2039 | Taxable Variable Rate | N/A |
| Total | | $1,419,100,000 | | | |

**Outstanding Subordinate Securities Under BHEA 93B Indenture**

As of July 31, 2008, the following subordinate securities were outstanding under the BHEA 93B Indenture:

| CUSIP | Series of Subordinate Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238FW3 | Series 1999 B-1 | $ 30,500,000 | Dec. 1, 2034 | Taxable Auction Rate | 7 days |
| 106238GW2 | Series 2001 B-2 | 32,400,000 | July 1, 2036 | Taxable Auction Rate | 7 days |
| 106238JP4 | Series 2003 B-1 | 39,000,000 | July 1, 2039 | Taxable Auction Rate | 7 days |
| 106238JV1 | Series 2003 B-2 | 43,100,000 | Dec. 1, 2039 | Taxable Auction Rate | 7 days |
| 106238KB3 | Series 2004 B-1 | 33,000,000 | Dec. 1, 2039 | Taxable Auction Rate | 7 days |
| Total | | $178,000,000 | | | |

**Senior Note Total Consideration**

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BHEA 93B Indenture" (excluding the Series 2007 A-5 and the Series 2007 A-6 bonds, which are not subject to the Concurrent Offer) is $930 per $1,000 principal amount tendered.

**Interest Rates**

The interest rate for each series of auction rate securities issued under the BHEA 93B Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BHEA 93B Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BHEA 93B Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their securities which are designated as “Taxable Auction Rate” above.

The Series 2005 A-5 bonds issued under the BHEA 93B Indenture are reset rate securities. The initial reset date for the Series 2005 A-5 bonds is December 15, 2008. During the current reset period, the Series 2005 A-5 bonds bear interest at a fixed rate equal to 4.91% per annum.

The Series 2007 A-5 bonds and the Series 2007 A-6 bonds issued under the BHEA 93B Indenture are variable rate demand obligations. The Series 2007 A-5 bonds and the Series 2007 A-6 bonds are currently in a weekly mode.

**Redemption of the Securities**

The outstanding auction rate securities (other than the Series 2003A-3 bonds described below) issued under the BHEA 93B Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no outstanding taxable auction rate securities, which have accrued but unpaid interest carryover (as calculated under the BHEA 93B Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

The Series 2003A-3 bonds issued under the BHEA 93B Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on each related interest payment date for such series at a redemption price of par plus accrued but unpaid interest, without premium. The interest payment dates with respect to the Series 2003A-3 bonds are each May 1 and November 1, or if such date is not a business day, the interest payment date will be the next business day.

The Series 2005 A-5 bonds are subject to optional redemption, in whole only, upon 10 days prior notice, on any reset date at a redemption price of par, plus accrued interest thereon.

The Series 2007 A-5 bonds and the Series 2007 A-6 bonds are subject to optional redemption in whole or in part on any business day, upon 14 days prior notice, at a redemption price of par plus accrued interest.

Pursuant to the terms of the BHEA 93B Indenture, the securities designated as "Tax-Exempt Auction Rate" above are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 93B Indenture, mandatory redemptions from excess cash flows of the outstanding tax-exempt auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

Pursuant to the terms of the BHEA 93B Indenture, the outstanding taxable auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 93B Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding taxable auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Pursuant to the terms of the BHEA 93B Indenture, the Series 2007 A-5 and the Series 2007 A-6 bonds are subject to mandatory redemption from excess cash flows as set forth in the BHEA 93B Indenture. Under the terms of the BHEA 93B Indenture, mandatory redemptions from excess cash flows within a particular class of the outstanding taxable auction rate securities and the Series 2007 A-5 and 2007 A-6 bonds are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation. However, as a result of recent market conditions with respect to variable rate demand obligations, BHEA is considering making a direction to have mandatory redemptions with respect to the Series 2007 A-5 bonds and the Series 2007 A-6 bonds occur prior to mandatory redemptions with respect to any senior taxable auction rate securities with earlier series designations.

Pursuant to the terms of the BHEA 93B Indenture, the Series 2005 A-5 bonds are subject are subject to mandatory redemption from excess cash flows as set forth in the BHEA 93B Indenture.

**Proposed Amendment**

Under the terms of the BHEA 93B Indenture, holders of not less than two-thirds of the aggregate principal amount of the bonds outstanding thereunder not held by BHEA are required to consent to the supplemental indenture to the BHEA 93B Indenture. In addition, the consent of DEPFA Bank plc, as liquidity provider under the liquidity agreement described below, and the consent of Citibank, N.A., as counterparty under the swap agreement described below, are required to be obtained with respect to the supplemental indenture to the BHEA 93B Indenture.

**Liquidity Agreement**

There is an outstanding liquidity agreement relating to the Series 2007 A-5 bonds and the Series 2007 A-6 bonds issued under the BHEA 93B Indenture.

The Series 2007 A-5 bonds and Series 2007 A-6 bonds are currently in a weekly variable rate mode, and the holders thereof may demand payment of the principal of and interest on such securities upon the tender of such securities to the trustee. Pursuant to a Standby Bond Purchase Agreement, dated as of December 1, 2007 (the "Standby Bond Purchase Agreement") among BHEA, the trustee under the BHEA 93B Indenture and DEPFA BANK plc, acting through its New York branch, as liquidity provider (the "Bank"), and subject to the conditions contained in such Standby Bond Purchase Agreement, the Bank is obligated to purchase Series 2007 A-5 bonds and Series 2007 A-6 bonds that are tendered for purchase and not remarketed, subject in all respects to the right of the Bank to terminate the Standby Bond Purchase Agreement immediately under certain conditions set forth therein. The Standby Bond Purchase Agreement was issued only for the benefit of the Series 2007 A-5 bonds and the Series 2007 A-6 bonds and does not apply to any other securities issued under the BHEA 93B Indenture. The Standby Bond Purchase Agreement will expire, unless otherwise extended or renewed or earlier terminated in accordance with its terms, on December 18, 2008.

Subject to the requirements of the BHEA 93B Indenture, BHEA is permitted to terminate the Standby Bond Purchase Agreement for any reason. So long as the Series 2007 A-5 bonds and the Series 2007 A-6 bonds are in weekly variable rate mode, the BHEA 93B Indenture requires BHEA to maintain a liquidity agreement (such as the existing Standby Bond Purchase Agreement) in support of such securities. There are no fees associated with termination of the Standby Bond Purchase Agreement.

**Other Obligations**

Derivative Product. On December 15, 2005, BHEA entered into a Swap Agreement with Citibank, N.A., as counterparty, relating to the Series 2005 A-5 bonds issued under the BHEA 93B Indenture. The Series 2005 A-5 bonds issued under the BHEA 93B Indenture are reset rate securities. This is the only outstanding derivative product secured under the BHEA 93B Indenture.

This swap agreement is documented under a 1992 ISDA Master Agreement (Multicurrency-Cross Border) modified to reflect the terms of the Series 2005 A-5 bonds and the BHEA 93B Indenture. The swap notional amount under this swap agreement is $130,900,000. This swap agreement is scheduled to be in effect for the first reset period for the Series 2005 A-5 bonds and to terminate pursuant to its terms on December 15, 2008**.** In connection with a successful Concurrent Offer relating to the securities issued under the BHEA 93B Indenture and the cancellation or redemption and defeasance of all outstanding securities thereunder, this swap agreement will be terminated.

Upon any early termination of this swap agreement, either BHEA or the counterparty may be liable to make a termination payment to the other. The amount of the termination payment is based on the value of the transaction as computed in accordance with the procedures provided in the swap agreement. As of July 31, 2008, the value of the transaction based on these procedures would have required a termination payment by the counterparty to BHEA in the amount of $1,132,268.

Rebate Obligation. Under the BHEA 93B Indenture, BHEA is required to pay, or cause to be paid, to the United States of America the amount required to be rebated with respect to the tax-exempt securities issued under the BHEA 93B Indenture. As of July 31, 2008, the amount of this rebate liability was approximately $244,107. Under the terms of the BHEA 93AC Indenture, BHEA is required to pay to the United States certain excess interest yield adjustment payments to reduce the amount of yield on the student loans financed by the tax-exempt auction rate securities to a yield that is not materially higher than the yield on the tax-exempt auction rate securities plus a permitted spread. As of July 31, 2008, the amount of the excess interest liability to be paid to the U.S. government was approximately $140,473.

There are no other obligations secured under the BHEA 93B Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BHEA 93B Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BHEA 93B Indenture, including a collection account, a principal distribution account, an interest account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BHEA 93B Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 4,898,883 |
| Principal Distribution Account | 8,448,959 |
| Interest Account | 5,972,056 |
| Operating Account* | 498,970 |
| Excess Interest Account* | 178,121 |
| Rebate Account* | 327,083 |
| Reserve Account | 14,599,100 |
| Total | $34,923,172 |

* The Operating Account, the Excess Interest Account and the Rebate Account are not pledged funds and are not held for the benefit of the holders of the securities issued under the BHEA 93B Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BHEA 93B Indenture. Amounts in the Excess Interest Account and the Rebate Account are held in trust for the United States of America to fulfill BHEA's obligations to rebate certain arbitrage profits to the United States.

Expenses. Under the BHEA 93B Indenture, BHEA incurred $22,930,440 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BHEA 93B Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BHEA 93B Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $1,509,591,988 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.5% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36, 48 or 60 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 2.5% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BHEA 93B Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $1,509,591,988 |
| Number of Borrowers (1) | 115,540 |
| Average Outstanding Principal Balance Per Borrower | $ 13,066 |
| Number of Loans | 262,578 |
| Average Outstanding Principal Balance Per Loan | $ 5,749 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 175 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.70% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BHEA determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BHEA determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.25 - 2.99 | $ 147,929,059 | 9.80 | 8,671 |
| 3.00 - 3.49 | 84,084,575 | 5.57 | 4,139 |
| 3.50 - 3.99 | 239,807,267 | 15.89 | 49,924 |
| 4.00 - 4.49 | 361,298,438 | 23.93 | 112,912 |
| 4.50 - 4.99 | 144,828,667 | 9.59 | 9,433 |
| 5.00 - 5.49 | 182,225,577 | 12.07 | 35,884 |
| 5.50 - 5.99 | 28,382,193 | 1.88 | 2,250 |
| 6.00 - 6.49 | 35,081,381 | 2.32 | 2,102 |
| 6.50 - 6.99 | 204,149,180 | 13.52 | 30,478 |
| 7.00 - 7.49 | 18,280,681 | 1.21 | 1,403 |
| 7.50 - 7.99 | 9,405,665 | 0.62 | 712 |
| 8.00 - 8.49 | 23,665,611 | 1.57 | 1,806 |
| 8.50 or greater | 30,453,693 | 2.02 | 2,864 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

(1) BHEA determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 726,293,333 | 48.11 | 42,336 |
| PLUS/SLS | 112,947,084 | 7.48 | 16,927 |
| Stafford | 670,351,570 | 44.41 | 203,315 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 43,904,011 | 2.91 | 30,214 |
| 25 - 36 | 17,138,252 | 1.14 | 8,516 |
| 37 - 48 | 22,320,850 | 1.48 | 9,719 |
| 49 - 60 | 34,110,350 | 2.26 | 13,296 |
| 61 - 72 | 37,451,256 | 2.48 | 13,877 |
| 73 - 84 | 48,782,772 | 3.23 | 14,280 |
| 85 - 96 | 95,551,777 | 6.33 | 23,556 |
| 97 - 108 | 163,810,375 | 10.85 | 39,106 |
| 109 - 120 | 339,419,469 | 22.48 | 71,061 |
| 121 - 132 | 10,897,255 | 0.72 | 2,147 |
| 133 - 144 | 12,218,456 | 0.81 | 1,929 |
| 145 - 156 | 29,050,322 | 1.92 | 3,568 |
| 157 - 168 | 42,202,710 | 2.80 | 4,745 |
| 169 - 180 | 31,167,836 | 2.06 | 3,295 |
| 181 - 192 | 5,717,394 | 0.38 | 430 |
| 193 - 220 | 90,767,894 | 6.01 | 6,165 |
| 221 - 260 | 98,885,147 | 6.55 | 5,874 |
| 261 - 300 | 126,468,289 | 8.38 | 5,121 |
| 301 - 340 | 105,994,285 | 7.02 | 2,615 |
| 341 or greater | 153,733,288 | 10.18 | 3,064 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

(1) BHEA determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 9,740,965 | 0.65 | 2,488 |
| Deferment | | 284,272,965 | 18.83 | 44,134 |
| Forbearance | | 139,779,356 | 9.26 | 20,133 |
| Grace | | 43,544,943 | 2.88 | 7,126 |
| Repayment | | 883,569,165 | 58.53 | 166,320 |
| School | | 148,684,593 | 9.85 | 22,377 |
| Total | $ | 1,509,591,988 | 100.00 | 262,578 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 30 | $ | 1,371,375,967 | 90.84 | 229,948 |
| 31 - 60 | | 40,405,248 | 2.68 | 8,337 |
| 61 - 90 | | 19,559,292 | 1.30 | 4,414 |
| 91 - 120 | | 17,302,978 | 1.15 | 3,838 |
| 121 - 150 | | 11,276,664 | 0.75 | 2,908 |
| 151 - 180 | | 8,594,159 | 0.57 | 2,135 |
| 181 or greater* | | 41,077,680 | 2.72 | 10,998 |
| Total | $ | 1,509,591,988 | 100.00 | 262,578 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 5,183,557 | 0.34 | 2,090 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 84,177,596 | 5.58 | 38,325 |
| Jan. 1, 2000 - June 30, 2006 | | 856,388,136 | 56.73 | 168,158 |
| July 1, 2006 - Sept. 30, 2007 | | 562,501,676 | 37.26 | 53,804 |
| On or after Oct. 1, 2007 | | 1,341,021 | 0.09 | 201 |
| Total | $ | 1,509,591,988 | 100.00 | 262,578 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| American Student Assistance (Massachusetts) | $ 86,702,538 | 5.74 | 11,617 |
| California Student Aid Commission | 93,019,166 | 6.16 | 18,150 |
| Great Lakes Higher Education Guaranty Corporation | 263,413,494 | 17.45 | 20,052 |
| Kentucky Higher Education Assistance Authority | 2,993,964 | 0.20 | 1,200 |
| Pennsylvania Higher Education Assistance Agency | 656,940,105 | 43.52 | 84,425 |
| Texas Guaranteed Student Loan Corporation | 260,589,926 | 17.26 | 86,159 |
| United Student Aid Funds | 71,693,804 | 4.75 | 17,161 |
| Others | 74,238,991 | 4.92 | 23,814 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| ACS Commercial Education & Financial Services | $ 646,337,880 | 42.82 | 138,320 |
| Chase Student Loan Servicing, LLC | 13,743,046 | 0.91 | 1,255 |
| Great Lakes Educational Loan Services, Inc | 120,805,570 | 8.00 | 9,931 |
| Pennsylvania Higher Education Assistance Agency | 658,159,488 | 43.60 | 91,761 |
| Sallie Mae Servicing | 70,546,004 | 4.67 | 21,311 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Subsidized | $ 649,372,340 | 43.02 | 143,917 |
| Unsubsidized | 860,219,648 | 56.98 | 118,661 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 4,919,549 | 0.33 | 19,929 |
| 500.00 - 999.99 | 16,523,525 | 1.09 | 21,821 |
| 1,000.00 - 1,999.99 | 70,314,568 | 4.66 | 47,135 |
| 2,000.00 - 2,999.99 | 130,861,462 | 8.67 | 51,980 |
| 3,000.00 - 3,999.99 | 95,579,096 | 6.33 | 27,670 |
| 4,000.00 - 4,999.99 | 86,901,701 | 5.76 | 19,306 |
| 5,000.00 - 5,999.99 | 86,776,032 | 5.75 | 15,822 |
| 6,000.00 - 6,999.99 | 47,430,830 | 3.14 | 7,399 |
| 7,000.00 - 7,999.99 | 34,778,501 | 2.30 | 4,641 |
| 8,000.00 - 8,999.99 | 75,721,680 | 5.02 | 8,918 |
| 9,000.00 - 9,999.99 | 31,960,106 | 2.12 | 3,373 |
| 10,000.00 - 14,999.99 | 140,974,895 | 9.34 | 11,546 |
| 15,000.00 - 19,999.99 | 116,244,053 | 7.70 | 6,741 |
| 20,000.00 - 24,999.99 | 101,655,319 | 6.73 | 4,535 |
| 25,000.00 - 29,999.99 | 104,506,302 | 6.92 | 3,846 |
| 30,000.00 - 34,999.99 | 80,634,634 | 5.34 | 2,466 |
| 35,000.00 - 39,999.99 | 74,939,332 | 4.96 | 2,013 |
| 40,000.00 - 44,999.99 | 40,865,398 | 2.71 | 966 |
| 45,000.00 - 49,999.99 | 27,630,844 | 1.83 | 585 |
| 50,000.00 - 54,999.99 | 22,409,738 | 1.48 | 429 |
| 55,000.00 - 59,999.99 | 16,022,052 | 1.06 | 279 |
| 60,000.00 - 64,999.99 | 13,534,936 | 0.90 | 217 |
| 65,000.00 - 69,999.99 | 12,470,886 | 0.83 | 185 |
| 70,000.00 - 74,999.99 | 9,929,915 | 0.66 | 137 |
| 75,000.00 - 79,999.99 | 7,283,721 | 0.48 | 94 |
| 80,000.00 - 84,999.99 | 7,640,440 | 0.51 | 93 |
| 85,000.00 - 89,999.99 | 6,101,530 | 0.40 | 70 |
| 90,000.00 - 94,999.99 | 5,087,521 | 0.34 | 55 |
| 95,000.00 - 99,999.99 | 5,341,518 | 0.35 | 55 |
| 100,000.00 - 109,999.99 | 7,559,710 | 0.50 | 72 |
| 110,000.00 - 119,999.99 | 7,314,700 | 0.48 | 64 |
| 120,000.00 - 129,999.99 | 5,996,363 | 0.40 | 48 |
| 130,000.00 - 139,999.99 | 3,750,349 | 0.25 | 28 |
| 140,000.00 - 149,999.99 | 2,743,453 | 0.18 | 19 |
| 150,000.00 or greater | 7,187,327 | 0.48 | 41 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 5,660,876 | 0.37 | 728 |
| Alaska | 1,489,904 | 0.10 | 231 |
| Arizona | 12,947,162 | 0.86 | 1,996 |
| Arkansas | 4,629,618 | 0.31 | 696 |
| California | 237,831,264 | 15.75 | 27,174 |
| Colorado | 10,358,339 | 0.69 | 1,266 |
| Connecticut | 15,387,624 | 1.02 | 2,426 |
| Delaware | 9,706,768 | 0.64 | 2,666 |
| Florida | 32,351,129 | 2.14 | 4,591 |
| Georgia | 21,595,422 | 1.43 | 2,259 |
| Hawaii | 2,980,441 | 0.20 | 512 |
| Idaho | 3,642,374 | 0.24 | 563 |
| Illinois | 23,083,914 | 1.53 | 2,100 |
| Indiana | 6,503,514 | 0.43 | 948 |
| Iowa | 2,381,874 | 0.16 | 263 |
| Kansas | 6,796,052 | 0.45 | 1,305 |
| Kentucky | 8,634,345 | 0.57 | 1,737 |
| Louisiana | 8,765,117 | 0.58 | 1,521 |
| Maine | 4,506,380 | 0.30 | 839 |
| Maryland | 25,564,031 | 1.69 | 3,970 |
| Massachusetts | 32,934,430 | 2.18 | 6,664 |
| Michigan | 15,564,579 | 1.03 | 1,372 |
| Minnesota | 18,164,726 | 1.20 | 1,553 |
| Mississippi | 2,326,799 | 0.15 | 450 |
| Missouri | 11,501,649 | 0.76 | 1,801 |
| Montana | 1,388,293 | 0.09 | 158 |
| Nebraska | 2,464,697 | 0.16 | 327 |
| Nevada | 7,087,764 | 0.47 | 1,247 |
| New Hampshire | 4,627,822 | 0.31 | 908 |
| New Jersey | 46,612,153 | 3.09 | 8,059 |
| New Mexico | 3,577,557 | 0.24 | 579 |
| New York | 111,040,372 | 7.36 | 20,816 |
| North Carolina | 18,854,527 | 1.25 | 2,575 |
| North Dakota | 2,259,252 | 0.15 | 97 |
| Ohio | 36,768,617 | 2.44 | 5,760 |
| Oklahoma | 5,795,977 | 0.38 | 904 |
| Oregon | 13,688,200 | 0.91 | 1,508 |
| Pennsylvania | 177,794,048 | 11.78 | 41,393 |
| Rhode Island | 3,366,369 | 0.22 | 604 |
| South Carolina | 8,232,380 | 0.55 | 895 |
| South Dakota | 1,543,711 | 0.10 | 116 |
| Tennessee | 8,767,607 | 0.58 | 1,112 |
| Texas | 427,979,388 | 28.35 | 91,662 |
| Utah | 2,677,509 | 0.18 | 294 |
| Vermont | 948,846 | 0.06 | 201 |
| Virginia | 32,344,424 | 2.14 | 4,179 |
| Washington | 16,933,280 | 1.12 | 1,959 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 16,905,152 | 1.12 | 2,531 |
| Wisconsin | 15,601,745 | 1.03 | 2,816 |
| Wyoming | 571,169 | 0.04 | 87 |
| Other | 16,452,800 | 1.09 | 2,160 |
| Total | $ 1,509,591,988 | 100.00 | 262,578 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 19.4 | 6.0 | - | - | 120.0 |
| Grace | - | 3.6 | - | - | 120.0 |
| Deferment | - | - | 8.7 | - | 207.9 |
| Forbearance | - | - | - | 1.8 | 198.3 |
| Repayment | - | - | - | - | 174.6 |
| Claims | - | - | - | - | 116.3 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.99%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.51%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BHEA 93B Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 93B Indenture to liabilities represented by the principal amount of outstanding securities issued under the BHEA 93B Indenture was equal to 97.06%. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 93B Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BHEA 93B Indenture was equal to 109.24%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 6:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF OCTOBER 1, 2007, BETWEEN BRAZOS STUDENT FINANCE CORPORATION AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Student Finance Corporation ("BSFC ") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of October 1, 2007, by and among BSFC, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "BSFC 2003-2 Indenture"). BSFC is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BSFC 2003-2 Indenture

As of July 31, 2008, the following senior securities were outstanding under the BSFC 2003-2 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PCQ1 | Series 2003 A-7 | $ 51,700,000 | Jan. 1, 2039 | Taxable Auction Rate | 28 days |
| 10623PCS7 | Series 2003 A-8 | 83,400,000 | Jan. 1, 2039 | Taxable Auction Rate | 28 days |
| 10623PDL1 | Series 2007 A-1 | 70,850,000 | Jan. 1, 2039 | Taxable Auction Rate | 7 days |
| 10623PDM9 | Series 2007 A-2 | 70,850,000 | Jan. 1, 2039 | Taxable Auction Rate | 7 days |
| 10623PDN7 | Series 2007 A-3 | 70,750,000 | Jan. 1, 2039 | Taxable Auction Rate | 7 days |
| 10623PDP2 | Series 2007 A-4 | 60,750,000 | Jan. 1, 2039 | Taxable Auction Rate | 7 days |
| 10623PDQ0 | Series 2007 A-5 | 30,400,000 | Jan. 1, 2039 | Taxable Auction Rate | 7 days |
| Total | | $438,700,000 | | | |

### Outstanding Subordinate Securities Under BSFC 2003-2 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the BSFC 2003-2 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PCR9 | Series 2003 B-2 | $41,700,000 | Jan. 1, 2039 | Taxable Auction Rate | 28 days |
| 10623PCT5 | Series 2003 B-3 | 31,700,000 | Jan. 1, 2039 | Taxable Auction Rate | 28 days |
| Total | | $73,400,000 | | | |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BSFC 2003-2 Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the BSFC 2003-2 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction

procedures for such series set forth in the BSFC 2003-2 Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BSFC 2003-2 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the BSFC 2003-2 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the BSFC 2003-2 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the BSFC 2003-2 Indenture, the outstanding auction rate securities are subject to mandatory from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BSFC 2003-2 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BSFC 2003-2 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by BSFC. BSFC has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the BSFC 2003-2 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the BSFC 2003-2 Indenture.

**Other Obligations**

There are no other obligations secured under the BSFC 2003-2 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BSFC 2003-2 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BSFC 2003-2 Indenture, including a collection account, a principal distribution account, an interest account, a capped interest account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BSFC 2003-2 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 638,492 |
| Principal Distribution Account | 3,170,340 |
| Interest Account | 800,442 |
| Operating Account* | 39,824 |
| Capped Interest Account | 3,500,000 |
| Reserve Account | 5,121,000 |
| Total | $13,270,098 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the BSFC 2003-2 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BSFC 2003-2 Indenture.

Expenses. Under the BSFC 2003-2 Indenture, BSFC incurred $6,989,250 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BSFC 2003-2 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BSFC 2003-2 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $486,292,396 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 1.75% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 3.3% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BSFC 2003-2 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $486,292,396 |
| Number of Borrowers (1) | 34,464 |
| Average Outstanding Principal Balance Per Borrower | $ 14,110 |
| Number of Loans | 87,262 |
| Average Outstanding Principal Balance Per Loan | $ 5,573 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 140 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.84% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BSFC determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BSFC determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.00 - 2.99 | $ 14,780,100 | 3.04 | 616 |
| 3.00 - 3.49 | 17,244,434 | 3.55 | 1,043 |
| 3.50 - 3.99 | 175,060,648 | 36.00 | 26,371 |
| 4.00 - 4.49 | 127,783,063 | 26.28 | 37,801 |
| 4.50 - 4.99 | 2,675,435 | 0.55 | 101 |
| 5.00 - 5.49 | 15,735,802 | 3.24 | 2,148 |
| 5.50 - 5.99 | 2,649,676 | 0.54 | 77 |
| 6.00 - 6.49 | 2,174,807 | 0.45 | 85 |
| 6.50 - 6.99 | 61,681,613 | 12.68 | 14,550 |
| 7.00 - 7.49 | 3,779,715 | 0.78 | 209 |
| 7.50 - 7.99 | 17,883,875 | 3.68 | 1,268 |
| 8.00 - 8.49 | 19,182,846 | 3.94 | 1,420 |
| 8.50 or greater | 25,660,383 | 5.28 | 1,573 |
| Total | $ 486,292,396 | 100.00 | 87,262 |

(1) BSFC determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 117,830,352 | 24.23 | 5,409 |
| HEAL | 49,902,098 | 10.26 | 1,885 |
| Other | 926,532 | 0.19 | 192 |
| PLUS/SLS | 17,940,924 | 3.69 | 1,804 |
| Stafford | 299,692,490 | 61.63 | 77,972 |
| Total | $ 486,292,396 | 100.00 | 87,262 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 101,825,753 | 20.94 | 19,886 |
| 25 - 36 | 1,577,323 | 0.32 | 1,204 |
| 37 - 48 | 1,901,211 | 0.39 | 1,086 |
| 49 - 60 | 3,762,959 | 0.77 | 2,009 |
| 61 - 72 | 3,979,551 | 0.82 | 1,887 |
| 73 - 84 | 3,183,737 | 0.65 | 1,525 |
| 85 - 96 | 3,985,941 | 0.82 | 1,853 |
| 97 - 108 | 9,485,854 | 1.95 | 2,357 |
| 109 - 120 | 190,599,246 | 39.19 | 48,374 |
| 121 - 132 | 10,022,301 | 2.06 | 1,125 |
| 133 - 144 | 12,637,146 | 2.60 | 1,046 |
| 145 - 156 | 7,652,152 | 1.57 | 344 |
| 157 - 168 | 7,575,609 | 1.56 | 269 |
| 169 - 180 | 9,466,259 | 1.95 | 689 |
| 181 - 192 | 7,852,268 | 1.61 | 419 |
| 193 - 220 | 10,271,548 | 2.11 | 441 |
| 221 - 260 | 19,584,902 | 4.03 | 858 |
| 261 - 300 | 13,341,287 | 2.74 | 724 |
| 301 - 340 | 15,504,542 | 3.19 | 347 |
| 341 or greater | 52,082,808 | 10.71 | 819 |
| Total | $ 486,292,396 | 100.00 | 87,262 |

(1) BSFC determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 3,068,027 | 0.63 | 763 |
| Deferment | | 57,553,824 | 11.84 | 11,328 |
| Forbearance | | 43,934,257 | 9.03 | 7,582 |
| Grace | | 32,979,000 | 6.78 | 6,663 |
| Repayment | | 254,778,168 | 52.39 | 43,144 |
| School | | 93,979,120 | 19.33 | 17,782 |
| Total | $ | 486,292,396 | 100.00 | 87,262 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 30 | $ | 441,095,634 | 90.71 | 78,011 |
| 31 - 60 | | 14,224,658 | 2.93 | 2,867 |
| 61 - 90 | | 7,249,383 | 1.49 | 1,317 |
| 91 - 120 | | 5,576,723 | 1.15 | 972 |
| 121 - 150 | | 3,579,692 | 0.74 | 815 |
| 151 - 180 | | 2,085,976 | 0.43 | 464 |
| 181 or greater* | | 12,480,329 | 2.57 | 2,816 |
| Total | $ | 486,292,396 | 100.00 | 87,262 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 739,480 | 0.15 | 128 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 110,292,281 | 22.68 | 10,390 |
| Jan. 1, 2000 - June 30, 2006 | | 299,165,105 | 61.52 | 60,716 |
| July 1, 2006 - Sept. 30, 2007 | | 76,007,980 | 15.63 | 15,998 |
| On or after Oct. 1, 2007 | | 87,550 | 0.02 | 30 |
| Total | $ | 486,292,396 | 100.00 | 87,262 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 8,996,465 | 1.85 | 886 |
| California Student Aid Commission | | 1,280,713 | 0.26 | 219 |
| Great Lakes Higher Education Guaranty Corporation | | 12,181,554 | 2.50 | 1,344 |
| Kentucky Higher Education Assistance Authority | | 4,193 | 0.00 | 1 |
| Pennsylvania Higher Education Assistance Agency | | 42,558,790 | 8.75 | 2,544 |
| Texas Guaranteed Student Loan Corporation | | 1,850,105 | 0.38 | 330 |
| United Student Aid Funds | | 350,879,279 | 72.15 | 75,166 |
| Others | | 68,541,297 | 14.09 | 6,772 |
| Total | $ | 486,292,396 | 100.00 | 87,262 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 5,899,709 | 1.21 | 581 |
| Chase Student Loan Servicing, LLC | | 3,961,120 | 0.81 | 469 |
| Great Lakes Educational Loan Services, Inc | | 11,806,459 | 2.43 | 1,319 |
| Pennsylvania Higher Education Assistance Agency | | 93,803,975 | 19.29 | 4,639 |
| Sallie Mae Servicing | | 370,821,134 | 76.25 | 80,254 |
| Total | $ | 486,292,396 | 100.00 | 87,262 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 193,622,028 | 39.82 | 47,162 |
| Unsubsidized | | 292,670,368 | 60.18 | 40,100 |
| Total | $ | 486,292,396 | 100.00 | 87,262 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 1,196,632 | 0.25 | 4,359 |
| 500.00 - 999.99 | 4,654,313 | 0.96 | 6,145 |
| 1,000.00 - 1,999.99 | 22,184,255 | 4.56 | 14,878 |
| 2,000.00 - 2,999.99 | 44,453,152 | 9.14 | 17,554 |
| 3,000.00 - 3,999.99 | 37,781,571 | 7.77 | 10,957 |
| 4,000.00 - 4,999.99 | 30,781,471 | 6.33 | 6,861 |
| 5,000.00 - 5,999.99 | 37,431,712 | 7.70 | 6,798 |
| 6,000.00 - 6,999.99 | 16,578,332 | 3.41 | 2,587 |
| 7,000.00 - 7,999.99 | 12,292,734 | 2.53 | 1,640 |
| 8,000.00 - 8,999.99 | 41,581,041 | 8.55 | 4,893 |
| 9,000.00 - 9,999.99 | 8,827,755 | 1.82 | 932 |
| 10,000.00 - 14,999.99 | 60,651,190 | 12.47 | 5,146 |
| 15,000.00 - 19,999.99 | 20,841,150 | 4.29 | 1,196 |
| 20,000.00 - 24,999.99 | 20,292,142 | 4.17 | 923 |
| 25,000.00 - 29,999.99 | 12,066,823 | 2.48 | 440 |
| 30,000.00 - 34,999.99 | 11,522,963 | 2.37 | 355 |
| 35,000.00 - 39,999.99 | 10,387,927 | 2.14 | 277 |
| 40,000.00 - 44,999.99 | 9,369,954 | 1.93 | 221 |
| 45,000.00 - 49,999.99 | 8,661,025 | 1.78 | 182 |
| 50,000.00 - 54,999.99 | 7,648,652 | 1.57 | 146 |
| 55,000.00 - 59,999.99 | 6,930,111 | 1.43 | 121 |
| 60,000.00 - 64,999.99 | 7,194,957 | 1.48 | 115 |
| 65,000.00 - 69,999.99 | 4,512,407 | 0.93 | 67 |
| 70,000.00 - 74,999.99 | 5,517,986 | 1.13 | 76 |
| 75,000.00 - 79,999.99 | 4,267,063 | 0.88 | 55 |
| 80,000.00 - 84,999.99 | 4,866,448 | 1.00 | 59 |
| 85,000.00 - 89,999.99 | 2,967,830 | 0.61 | 34 |
| 90,000.00 - 94,999.99 | 3,312,952 | 0.68 | 36 |
| 95,000.00 - 99,999.99 | 2,631,649 | 0.54 | 27 |
| 100,000.00 - 109,999.99 | 4,586,084 | 0.94 | 44 |
| 110,000.00 - 119,999.99 | 5,013,948 | 1.03 | 44 |
| 120,000.00 - 129,999.99 | 2,615,579 | 0.54 | 21 |
| 130,000.00 - 139,999.99 | 2,702,909 | 0.56 | 20 |
| 140,000.00 - 149,999.99 | 1,154,160 | 0.24 | 8 |
| 150,000.00 or greater | 8,813,522 | 1.81 | 45 |
| Total | $ 486,292,396 | 100.00 | 87,262 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 10,011,936 | 2.06 | 1,794 |
| Alaska | 591,937 | 0.12 | 58 |
| Arizona | 6,612,959 | 1.36 | 624 |
| Arkansas | 2,161,302 | 0.44 | 430 |
| California | 26,807,311 | 5.51 | 1,841 |
| Colorado | 4,140,275 | 0.85 | 371 |
| Connecticut | 5,404,383 | 1.11 | 993 |
| Delaware | 31,387,986 | 6.45 | 8,617 |
| Florida | 24,451,537 | 5.03 | 3,024 |
| Georgia | 30,177,031 | 6.21 | 3,858 |
| Hawaii | 1,015,916 | 0.21 | 92 |
| Idaho | 977,409 | 0.20 | 63 |
| Illinois | 9,981,178 | 2.05 | 1,286 |
| Indiana | 5,915,143 | 1.22 | 977 |
| Iowa | 1,185,505 | 0.24 | 94 |
| Kansas | 1,980,756 | 0.41 | 287 |
| Kentucky | 3,617,241 | 0.74 | 347 |
| Louisiana | 64,064,831 | 13.17 | 20,045 |
| Maine | 5,878,307 | 1.21 | 1,913 |
| Maryland | 41,059,601 | 8.44 | 13,499 |
| Massachusetts | 11,656,892 | 2.40 | 1,626 |
| Michigan | 10,995,379 | 2.26 | 1,083 |
| Minnesota | 3,326,606 | 0.68 | 278 |
| Mississippi | 3,674,396 | 0.76 | 869 |
| Missouri | 3,870,488 | 0.80 | 463 |
| Montana | 593,201 | 0.12 | 64 |
| Nebraska | 660,301 | 0.14 | 75 |
| Nevada | 2,385,413 | 0.49 | 256 |
| New Hampshire | 1,672,642 | 0.34 | 190 |
| New Jersey | 19,958,446 | 4.10 | 2,774 |
| New Mexico | 978,133 | 0.20 | 98 |
| New York | 27,775,593 | 5.71 | 2,803 |
| North Carolina | 10,897,487 | 2.24 | 1,659 |
| North Dakota | 221,409 | 0.05 | 21 |
| Ohio | 16,670,081 | 3.43 | 1,817 |
| Oklahoma | 1,696,014 | 0.35 | 164 |
| Oregon | 3,188,403 | 0.66 | 219 |
| Pennsylvania | 26,190,244 | 5.39 | 4,168 |
| Rhode Island | 845,782 | 0.17 | 90 |
| South Carolina | 8,641,889 | 1.78 | 1,047 |
| South Dakota | 188,734 | 0.04 | 14 |
| Tennessee | 7,143,966 | 1.47 | 814 |
| Texas | 7,607,848 | 1.56 | 862 |
| Utah | 2,140,551 | 0.44 | 80 |
| Vermont | 716,714 | 0.15 | 117 |
| Virginia | 16,584,148 | 3.41 | 2,980 |
| Washington | 4,411,208 | 0.91 | 368 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 2,861,599 | 0.59 | 862 |
| Wisconsin | 4,287,570 | 0.88 | 436 |
| Wyoming | 338,909 | 0.07 | 48 |
| Other | 6,689,808 | 1.38 | 704 |
| Total | $ 486,292,396 | 100.00 | 87,262 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 19.6 | 6.0 | - | - | 120.0 |
| Grace | - | 3.4 | - | - | 120.0 |
| Deferment | - | - | 14.9 | - | 168.3 |
| Forbearance | - | - | - | 4.1 | 180.3 |
| Repayment | - | - | - | - | 183.8 |
| Claims | - | - | - | - | 150.1 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.06%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.41%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BSFC 2003-2 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 2003-2 Indenture to liabilities represented by the principal amount of outstanding securities issued under the BSFC 2003-2 Indenture was equal to 98.22%. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 2003-2 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BSFC 2003-2 Indenture was equal to 114.65%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 7:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF JUNE 1, 2006, BETWEEN BRAZOS HIGHER EDUCATION AUTHORITY, INC. AND WELLS FARGO BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Higher Education Authority, Inc. ("BHEA") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of June 1, 2006, by and among BHEA, Wells Fargo Bank National Association, as trustee, and Wells Fargo Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "BHEA 99 Indenture"). BHEA is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BHEA 99 Indenture

As of July 31, 2008, the following senior securities were outstanding under the BHEA 99 Indenture:

| CUSIP | Series of Senior Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238EY0 | Series 1999 A-1 | $ 6,800,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238EZ7 | Series 1999 A-1 | 1,300,000 | June 1, 2010 | Tax-Exempt Auction Rate | 35 days |
| 106238FA1 | Series 1999 A-1 | 900,000 | June 1, 2014 | Tax-Exempt Auction Rate | 35 days |
| 106238FB9 | Series 1999 A-1 | 35,000,000 | Dec. 1, 2033 | Tax-Exempt Auction Rate | 35 days |
| 106238FG8 | Series 1999 A-3 | 40,200,000 | Dec. 1, 2033 | Taxable Auction Rate | 28 days |
| 106238FH6 | Series 1999 A-4 | 78,200,000 | Dec. 1, 2033 | Taxable Auction Rate | 28 days |
| 106238FJ2 | Series 1999 A-5 | 78,200,000 | Dec. 1, 2033 | Taxable Auction Rate | 28 days |
| 106238FK9 | Series 1999 A-6 | 78,300,000 | Dec. 1, 2033 | Taxable Auction Rate | 28 days |
| 106238LZ9 | Series 2006 A-3 | 56,900,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| 106238MA3 | Series 2006 A-4 | 56,900,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| 106238MB1 | Series 2006 A-5 | 95,800,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| 106238MC9 | Series 2006 A-6 | 47,900,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $576,400,000 | | | |

### Outstanding Subordinate Securities Under BHEA 99 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the BHEA 99 Indenture:

| CUSIP | Series of Subordinate Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238MD7 | Series 2006 B-1 | $30,700,000 | June 1, 2042 | Taxable Auction Rate | 28 days |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BHEA 99 Indenture" is $920 per $1,000 principal amount tendered.

**Interest Rates**

The interest rate for each series of auction rate securities issued under the BHEA 99 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BHEA 99 Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BHEA 99 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their securities which are designated as "Taxable Auction Rate" above.

**Redemption of the Securities**

The outstanding auction rate securities issued under the BHEA 99 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no outstanding taxable auction rate securities, which have accrued but unpaid interest carryover (as calculated under the BHEA 99 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the BHEA 99 Indenture, the securities designated as "Tax-Exempt Auction Rate" above are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 99 Indenture, mandatory redemptions from excess cash flows of the outstanding tax-exempt auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

Pursuant to the terms of the BHEA 99 Indenture, the outstanding taxable auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 99 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding taxable auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BHEA 99 Indenture, mandatory redemptions from excess cash flows within a particular class of the outstanding taxable auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the BHEA 99 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of bonds outstanding thereunder are required to consent to the supplemental indenture to the BHEA 99 Indenture. In addition, the consent of MBIA Insurance Corporation, as bond insurer under BHEA 99 Indenture, is required to be obtained with respect to the supplemental indenture to the BHEA 99 Indenture.

**Other Obligations**

Bond Insurance. The payments of regularly scheduled principal and interest (but not any prepayment premium or interest carryover or interest accrued thereon) on the Series 1999 A-1, Series 1999 A-3, Series 1999 A- 4, Series 1999 A-5 and Series 1999 A-6 bonds when due are insured by a financial guaranty insurance policy issued by MBIA Insurance Corporation, as the bond insurer. MBIA Insurance Corporation, as bond insurer, has certain rights under the BHEA 99 Indenture, which will cease to exist once the Series 1999 A-1, Series 1999 A-3, Series 1999 A-4, Series 1999 A-5 and Series 1999 A-6 bonds are no longer outstanding and all amounts due MBIA Insurance Corporation have been paid. As of July 31, 2008 through March 5, 2009, all payments, under the BHEA 99 Indenture and the financial guaranty policy, payable and due the bond insurer have been paid. In addition, there are no fees associated with termination of the bond insurance under the BHEA 99 Indenture or the financial guaranty policy.

Rebate Obligation. Under the BHEA 99 Indenture, BHEA is required to pay, or cause to be paid, to the United States of America the amount required to be rebated with respect to the tax-exempt securities issued under the BHEA 99 Indenture. As of July 31, 2008, the amount of this rebate liability was approximately $58,191. Under the terms of the BHEA 99 Indenture, BHEA is required to pay to the United States certain excess interest yield adjustment payments to reduce the amount of yield on the student loans financed by the tax-exempt auction rate securities to a yield that is not materially higher than the yield on the tax-exempt auction rate securities plus a permitted spread. As of July 31, 2008, there were no amounts of excess interest liability to be paid to the U.S. government.

There are no other obligations secured under the BHEA 99 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BHEA 99 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BHEA 99 Indenture, including a collection account, a principal distribution account, an interest account, a reserve account and a student loan account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BHEA 99 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 4,303,301 |
| Principal Distribution Account | 7,643,088 |
| Interest Account | 1,818,652 |
| Rebate Account* | 171,254 |
| Excess Interest Account* | 487,515 |
| Reserve Account | 8,613,500 |
| Student Loan Account | 468,010 |
| Total** | $23,505,321 |

* The Excess Interest Account and the Rebate Account are not pledged funds and are not held for the benefit of the holders of the securities issued under the BHEA 99 Indenture. Amounts in the Excess Interest Account and the Rebate Account are held in trust for the United States of America to fulfill BHEA's obligations to rebate certain arbitrage profits to the United States.

** The dollar amount set forth under "Total" in the table above may not total 100% of the account balances set forth in the table above due to rounding.

Expenses. Under the BHEA 99 Indenture, BHEA incurred $9,495,557 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BHEA 99 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BHEA 99 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $566,088,718 as of the Statistical Cut-Off Date.

The distribution by weighted average interest rate applicable to the student loans on any date following the Statistical Cut-Off Date may vary significantly from that in the following tables as a result of variations in the effective rates of interest applicable to the student loans. Moreover, the information below about the weighted average remaining terms to maturity of the student loans as of the Statistical Cut-Off Date may vary significantly

from the actual terms to maturity of any of the student loans as a result of prepayments or the granting of deferral and forbearance periods on any of the student loans.

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.5% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36, 48 or 60 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 2.0% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BHEA 99 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $566,088,718 |
| Number of Borrowers (1) | 51,235 |
| Average Outstanding Principal Balance Per Borrower | $ 11,049 |
| Number of Loans | 104,877 |
| Average Outstanding Principal Balance Per Loan | $ 5,398 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 180 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.68% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BHEA determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BHEA determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.38 – 2.99 | $ 49,243,908 | 8.70 | 2,647 |
| 3.00 – 3.49 | 32,980,263 | 5.83 | 2,217 |
| 3.50 – 3.99 | 99,132,181 | 17.51 | 18,379 |
| 4.00 – 4.49 | 137,353,805 | 24.26 | 41,029 |
| 4.50 – 4.99 | 51,647,220 | 9.12 | 3,107 |
| 5.00 – 5.49 | 95,371,674 | 16.85 | 24,657 |
| 5.50 – 5.99 | 7,122,736 | 1.26 | 840 |
| 6.00 – 6.49 | 10,019,216 | 1.77 | 625 |
| 6.50 – 6.99 | 29,174,987 | 5.15 | 5,046 |
| 7.00 – 7.49 | 5,873,863 | 1.04 | 645 |
| 7.50 – 7.99 | 5,947,388 | 1.05 | 433 |
| 8.00 – 8.49 | 24,094,324 | 4.26 | 3,214 |
| 8.50 or greater | 18,127,154 | 3.20 | 2,038 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

(1) BHEA determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 313,048,206 | 55.30 | 19,443 |
| PLUS/SLS | 51,764,837 | 9.14 | 8,315 |
| Stafford | 201,275,676 | 35.56 | 77,119 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 24 | $ 23,888,472 | 4.22 | 16,835 |
| 25 – 36 | 10,905,942 | 1.93 | 4,520 |
| 37 – 48 | 13,340,382 | 2.36 | 5,733 |
| 49 – 60 | 21,371,540 | 3.78 | 7,350 |
| 61 – 72 | 16,322,075 | 2.88 | 6,029 |
| 73 – 84 | 17,183,880 | 3.04 | 5,703 |
| 85 – 96 | 29,084,661 | 5.14 | 8,355 |
| 97 – 108 | 44,335,366 | 7.83 | 11,278 |
| 109 – 120 | 95,792,449 | 16.92 | 23,017 |
| 121 – 132 | 5,887,872 | 1.04 | 1,031 |
| 133 – 144 | 16,545,812 | 2.92 | 2,641 |
| 145 – 156 | 7,611,370 | 1.34 | 903 |
| 157 – 168 | 9,108,768 | 1.61 | 895 |
| 169 – 180 | 22,455,712 | 3.97 | 2,318 |
| 181 – 192 | 7,150,845 | 1.26 | 538 |
| 193 – 220 | 22,355,373 | 3.95 | 1,500 |
| 221 – 260 | 43,111,303 | 7.62 | 2,448 |
| 261 – 300 | 44,774,413 | 7.91 | 1,630 |
| 301 – 340 | 32,591,130 | 5.76 | 681 |
| 341 or greater | 82,271,354 | 14.53 | 1,472 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

(1) BHEA determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Claims* | $ 4,409,841 | 0.78 | 1,138 |
| Deferment | 101,049,334 | 17.85 | 17,122 |
| Forbearance | 59,760,449 | 10.56 | 8,243 |
| Grace | 7,905,763 | 1.40 | 1,628 |
| Repayment | 377,880,360 | 66.75 | 73,316 |
| School | 15,082,970 | 2.66 | 3,430 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 30 | $ 502,061,000 | 88.69 | 89,621 |
| 31 - 60 | 20,557,682 | 3.63 | 4,323 |
| 61 - 90 | 8,801,208 | 1.55 | 2,168 |
| 91 - 120 | 6,464,242 | 1.14 | 1,525 |
| 121 - 150 | 5,713,468 | 1.01 | 1,382 |
| 151 - 180 | 4,539,803 | 0.80 | 1,070 |
| 181 or greater* | 17,951,316 | 3.17 | 4,788 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Before Oct. 1, 1993 | $ 10,415,533 | 1.84 | 5,571 |
| Oct. 1, 1993 - Dec. 31, 1999 | 90,841,035 | 16.05 | 27,569 |
| Jan. 1, 2000 - June 30, 2006 | 373,121,194 | 65.91 | 62,939 |
| July 1, 2006 - Sept. 30, 2007 | 90,583,476 | 16.00 | 8,605 |
| On or after Oct. 1, 2007 | 1,127,479 | 0.20 | 193 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

**Distribution of the Student Loans by Guarantee Agency as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| American Student Assistance (Massachusetts) | $ 18,323,090 | 3.24 | 1,889 |
| California Student Aid Commission | 53,119,495 | 9.38 | 15,784 |
| Great Lakes Higher Education Guaranty Corporation | 73,257,860 | 12.94 | 14,869 |
| Kentucky Higher Education Assistance Authority | 3,041,891 | 0.54 | 1,760 |
| Pennsylvania Higher Education Assistance Agency | 229,392,416 | 40.52 | 27,949 |
| Texas Guaranteed Student Loan Corporation | 41,661,982 | 7.36 | 15,963 |
| United Student Aid Funds | 107,761,734 | 19.04 | 16,915 |
| Others | 39,530,250 | 6.98 | 9,748 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

**Distribution of the Student Loans by Subservicer as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| ACS Commercial Education & Financial Services | $ 176,986,314 | 31.26 | 41,198 |
| Chase Student Loan Servicing, LLC | 5,029,481 | 0.89 | 981 |
| Great Lakes Educational Loan Services, Inc | 70,493,835 | 12.45 | 14,507 |
| Pennsylvania Higher Education Assistance Agency | 206,324,832 | 36.45 | 31,036 |
| Sallie Mae Servicing | 107,254,257 | 18.95 | 17,155 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Subsidized | $ 261,034,300 | 46.11 | 62,043 |
| Unsubsidized | 305,054,418 | 53.89 | 42,834 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 – 499.99 | $ 2,383,504 | 0.42 | 9,580 |
| 500.00 – 999.99 | 7,366,346 | 1.30 | 9,757 |
| 1,000.00 – 1,999.99 | 31,266,473 | 5.52 | 20,954 |
| 2,000.00 – 2,999.99 | 49,316,710 | 8.71 | 19,645 |
| 3,000.00 – 3,999.99 | 38,337,751 | 6.77 | 11,126 |
| 4,000.00 – 4,999.99 | 33,849,874 | 5.98 | 7,509 |
| 5,000.00 – 5,999.99 | 29,060,065 | 5.13 | 5,313 |
| 6,000.00 – 6,999.99 | 18,897,280 | 3.34 | 2,935 |
| 7,000.00 – 7,999.99 | 14,647,830 | 2.59 | 1,957 |
| 8,000.00 – 8,999.99 | 19,812,602 | 3.50 | 2,334 |
| 9,000.00 – 9,999.99 | 13,454,732 | 2.38 | 1,419 |
| 10,000.00 – 14,999.99 | 58,188,317 | 10.28 | 4,780 |
| 15,000.00 – 19,999.99 | 42,350,009 | 7.48 | 2,455 |
| 20,000.00 – 24,999.99 | 31,681,633 | 5.60 | 1,421 |
| 25,000.00 – 29,999.99 | 23,901,582 | 4.22 | 872 |
| 30,000.00 – 34,999.99 | 20,380,391 | 3.60 | 632 |
| 35,000.00 – 39,999.99 | 16,467,987 | 2.91 | 441 |
| 40,000.00 – 44,999.99 | 14,391,197 | 2.54 | 340 |
| 45,000.00 – 49,999.99 | 11,644,649 | 2.06 | 245 |
| 50,000.00 – 54,999.99 | 12,796,007 | 2.26 | 243 |
| 55,000.00 – 59,999.99 | 9,166,850 | 1.62 | 160 |
| 60,000.00 – 64,999.99 | 7,390,337 | 1.31 | 118 |
| 65,000.00 – 69,999.99 | 7,559,053 | 1.34 | 112 |
| 70,000.00 – 74,999.99 | 6,011,337 | 1.06 | 83 |
| 75,000.00 – 79,999.99 | 5,573,235 | 0.98 | 72 |
| 80,000.00 – 84,999.99 | 6,000,626 | 1.06 | 73 |
| 85,000.00 – 89,999.99 | 3,679,092 | 0.65 | 42 |
| 90,000.00 – 94,999.99 | 3,885,427 | 0.69 | 42 |
| 95,000.00 – 99,999.99 | 4,002,506 | 0.71 | 41 |
| 100,000.00 – 109,999.99 | 5,023,516 | 0.89 | 48 |
| 110,000.00 – 119,999.99 | 3,640,138 | 0.64 | 32 |
| 120,000.00 – 129,999.99 | 5,002,171 | 0.88 | 40 |
| 130,000.00 – 139,999.99 | 2,165,236 | 0.38 | 16 |
| 140,000.00 – 149,999.99 | 1,739,954 | 0.31 | 12 |
| 150,000.00 or greater | 5,054,300 | 0.89 | 28 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 4,805,470 | 0.85 | 727 |
| Alaska | 813,602 | 0.14 | 104 |
| Arizona | 9,315,306 | 1.65 | 1,982 |
| Arkansas | 3,313,440 | 0.59 | 386 |
| California | 96,216,647 | 17.00 | 16,807 |
| Colorado | 4,612,340 | 0.81 | 648 |
| Connecticut | 5,507,094 | 0.97 | 736 |
| Delaware | 2,044,093 | 0.36 | 426 |
| Florida | 17,154,950 | 3.03 | 2,577 |
| Georgia | 11,384,511 | 2.01 | 1,141 |
| Hawaii | 1,420,703 | 0.25 | 200 |
| Idaho | 1,416,768 | 0.25 | 261 |
| Illinois | 10,380,223 | 1.83 | 1,206 |
| Indiana | 7,151,090 | 1.26 | 1,065 |
| Iowa | 1,578,895 | 0.28 | 196 |
| Kansas | 2,124,052 | 0.38 | 293 |
| Kentucky | 6,782,868 | 1.20 | 1,912 |
| Louisiana | 5,933,088 | 1.05 | 1,209 |
| Maine | 1,536,805 | 0.27 | 194 |
| Maryland | 9,318,563 | 1.65 | 1,519 |
| Massachusetts | 9,887,468 | 1.75 | 1,453 |
| Michigan | 7,135,970 | 1.26 | 964 |
| Minnesota | 7,612,751 | 1.34 | 812 |
| Mississippi | 2,009,652 | 0.36 | 241 |
| Missouri | 5,242,284 | 0.93 | 676 |
| Montana | 885,974 | 0.16 | 78 |
| Nebraska | 1,202,042 | 0.21 | 128 |
| Nevada | 4,670,419 | 0.83 | 670 |
| New Hampshire | 1,826,443 | 0.32 | 223 |
| New Jersey | 16,244,791 | 2.87 | 2,236 |
| New Mexico | 2,311,320 | 0.41 | 356 |
| New York | 39,345,401 | 6.95 | 6,938 |
| North Carolina | 7,861,568 | 1.39 | 1,267 |
| North Dakota | 355,453 | 0.06 | 46 |
| Ohio | 27,457,583 | 4.85 | 7,344 |
| Oklahoma | 2,825,493 | 0.50 | 378 |
| Oregon | 6,148,636 | 1.09 | 679 |
| Pennsylvania | 48,977,494 | 8.65 | 11,351 |
| Rhode Island | 1,183,656 | 0.21 | 146 |
| South Carolina | 4,385,115 | 0.77 | 519 |
| South Dakota | 849,002 | 0.15 | 57 |
| Tennessee | 3,903,847 | 0.69 | 497 |
| Texas | 101,130,748 | 17.86 | 20,727 |
| Utah | 1,407,008 | 0.25 | 156 |
| Vermont | 455,648 | 0.08 | 78 |
| Virginia | 10,904,602 | 1.93 | 2,136 |
| Washington | 7,736,376 | 1.37 | 1,051 |
| West Virginia | 1,399,640 | 0.25 | 226 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Wisconsin | 9,198,438 | 1.62 | 2,424 |
| Wyoming | 357,535 | 0.06 | 62 |
| Other | 28,365,849 | 5.01 | 7,369 |
| Total | $ 566,088,718 | 100.00 | 104,877 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 19.6 | 6.0 | - | - | 120.0 |
| Grace | - | 3.5 | - | - | 120.0 |
| Deferment | - | - | 8.7 | - | 200.1 |
| Forbearance | - | - | - | 2.7 | 208.6 |
| Repayment | - | - | - | - | 175.2 |
| Claims | - | - | - | - | 125.2 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.06%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.54%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BHEA 99 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 99 Indenture to liabilities represented by the principal amount of outstanding securities issued under the BHEA 99 Indenture was equal to 97.76%. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 99 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BHEA 99 Indenture was equal to 102.97%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 8:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

### AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF JUNE 1, 2006, BETWEEN EDINVEST COMPANY AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

**Indenture**

EdInvest Company ("EdInvest") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of June 1, 2006, by and among EdInvest, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "EdInvest 2003 Indenture"). EdInvest is a Texas non-profit corporation located in Waco, Texas.

**Outstanding Senior Securities Under EdInvest 2003 Indenture**

As of July 31, 2008, the following senior securities were outstanding under the EdInvest 2003 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 280850AC2 | Series 2004 A-1 | $ 64,300,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 280850AE8 | Series 2005 A-1 | 98,300,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| 280850AG3 | Series 2006 A-1 | 57,000,000 | June 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $219,600,000 | | | |

**Outstanding Subordinate Securities Under EdInvest 2003 Indenture**

As of July 31, 2008, the following subordinate securities were outstanding under the EdInvest 2003 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 280850AB4 | Series 2003 B-1 | $17,300,000 | June 1, 2039 | Taxable Auction Rate | 28 days |
| 280850AD0 | Series 2004 B-1 | 11,000,000 | June 1, 2040 | Taxable Auction Rate | 28 days |
| 280850AF5 | Series 2005 B-1 | 13,500,000 | June 1, 2041 | Taxable Auction Rate | 28 days |
| Total | | $41,800,000 | | | |

**Senior Note Total Consideration**

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the EdInvest 2003 Indenture" is $940 per $1,000 principal amount tendered.

**Interest Rates**

The interest rate for each series of auction rate securities issued under the EdInvest 2003 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the EdInvest 2003 Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the EdInvest 2003 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the EdInvest 2003 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the EdInvest 2003 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the EdInvest 2003 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the EdInvest 2003 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the EdInvest 2003 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by EdInvest. EdInvest has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the EdInvest 2003 Indenture, holders of not less than 60% of the aggregate principal a mount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the EdInvest 2003 Indenture.

**Other Obligations**

There are no other obligations secured under the EdInvest 2003 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the EdInvest 2003 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the EdInvest 2003 Indenture, including a collection account, a principal distribution account, an interest account, an alternative loan guarantee account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the EdInvest 2003 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 112,239 |
| Principal Distribution Account | 1,055,398 |
| Interest Account | 725,917 |
| Alternative Loan Guarantee Account | 4,388 |
| Operating Account* | 19,854 |
| Reserve Account | 2,471,500 |
| Total** | $4,389,295 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the EdInvest 2003 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under EdInvest 2003 Indenture.

** The dollar amount set forth under "Total" in the table above may not total 100% of the account balances set forth in the table above due to rounding.

Expenses. Under the EdInvest 2003 Indenture, EdInvest incurred $3,392,254 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the EdInvest 2003 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the EdInvest 2003 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $247,778,069 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 1.75% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the EdInvest 2003 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $247,778,069 |
| Number of Borrowers (1) | 10,471 |
| Average Outstanding Principal Balance Per Borrower | $ 23,663 |
| Number of Loans | 24,825 |
| Average Outstanding Principal Balance Per Loan | $ 9,981 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 195 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.29% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) EdInvest determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) EdInvest determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.00 - 2.99 | $ 14,380,360 | 5.80 | 511 |
| 3.00 - 3.49 | 16,194,238 | 6.54 | 737 |
| 3.50 - 3.99 | 110,224,016 | 44.48 | 11,101 |
| 4.00 - 4.49 | 33,466,328 | 13.51 | 4,624 |
| 4.50 - 4.99 | 26,089,600 | 10.53 | 1,393 |
| 5.00 - 5.49 | 8,162,783 | 3.29 | 2,010 |
| 5.50 - 5.99 | 3,242,817 | 1.31 | 202 |
| 6.00 - 6.49 | 2,268,361 | 0.92 | 121 |
| 6.50 - 6.99 | 29,413,660 | 11.87 | 3,839 |
| 7.00 - 7.49 | 1,197,959 | 0.48 | 75 |
| 7.50 - 7.99 | 479,211 | 0.19 | 30 |
| 8.00 - 8.49 | 1,936,816 | 0.78 | 92 |
| 8.50 or greater | 721,919 | 0.29 | 90 |
| Total | $ 247,778,069 | 100.00 | 24,825 |

(1) EdInvest determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 105,311,074 | 42.50 | 4,536 |
| Other | 389,957 | 0.16 | 27 |
| PLUS/SLS | 3,034,590 | 1.22 | 588 |
| Stafford | 139,042,447 | 56.12 | 19,674 |
| Total | $ 247,778,069 | 100.00 | 24,825 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 4,031,728 | 1.63 | 1,068 |
| 25 - 36 | 273,690 | 0.11 | 180 |
| 37 - 48 | 325,269 | 0.13 | 156 |
| 49 - 60 | 623,753 | 0.25 | 243 |
| 61 - 72 | 549,640 | 0.22 | 230 |
| 73 - 84 | 515,332 | 0.21 | 211 |
| 85 - 96 | 1,378,172 | 0.56 | 381 |
| 97 - 108 | 3,673,436 | 1.48 | 800 |
| 109 - 120 | 127,984,246 | 51.65 | 16,770 |
| 121 - 132 | 1,920,944 | 0.78 | 238 |
| 133 - 144 | 630,878 | 0.25 | 99 |
| 145 - 156 | 2,263,280 | 0.91 | 271 |
| 157 - 168 | 1,586,608 | 0.64 | 178 |
| 169 - 180 | 4,245,389 | 1.71 | 486 |
| 181 - 192 | 514,455 | 0.21 | 40 |
| 193 - 220 | 5,356,623 | 2.16 | 377 |
| 221 - 260 | 17,173,306 | 6.93 | 1,120 |
| 261 - 300 | 19,125,981 | 7.72 | 895 |
| 301 - 340 | 8,889,866 | 3.59 | 193 |
| 341 or greater | 46,715,472 | 18.85 | 889 |
| Total | $ 247,778,069 | 100.00 | 24,825 |

(1) EdInvest determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 708,672 | 0.29 | 156 |
| Deferment | | 63,453,345 | 25.61 | 5,085 |
| Forbearance | | 17,000,697 | 6.86 | 1,379 |
| Grace | | 25,194,412 | 10.17 | 2,978 |
| Repayment | | 82,794,539 | 33.41 | 8,667 |
| School | | 58,626,404 | 23.66 | 6,560 |
| Total | $ | 247,778,069 | 100.00 | 24,825 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 30 | $ | 236,991,154 | 95.65 | 23,099 |
| 31 - 60 | | 4,147,222 | 1.67 | 455 |
| 61 - 90 | | 1,001,294 | 0.40 | 166 |
| 91 - 120 | | 1,138,621 | 0.46 | 167 |
| 121 - 150 | | 1,156,419 | 0.47 | 152 |
| 151 - 180 | | 658,241 | 0.27 | 129 |
| 181 or greater* | | 2,685,118 | 1.08 | 657 |
| Total | $ | 247,778,069 | 100.00 | 24,825 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 197,570 | 0.08 | 90 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 5,531,386 | 2.23 | 2,807 |
| Jan. 1, 2000 - June 30, 2006 | | 191,507,600 | 77.29 | 17,108 |
| July 1, 2006 - Sept. 30, 2007 | | 50,541,512 | 20.40 | 4,820 |
| Total | $ | 247,778,069 | 100.00 | 24,825 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 157,535 | 0.06 | 41 |
| California Student Aid Commission | | 6,968,020 | 2.81 | 2,862 |
| Great Lakes Higher Education Guaranty Corporation | | 161,873,714 | 65.33 | 14,780 |
| Kentucky Higher Education Assistance Authority | | 3,627 | 0.00 | 1 |
| Pennsylvania Higher Education Assistance Agency | | 39,060,141 | 15.76 | 2,225 |
| Texas Guaranteed Student Loan Corporation | | 3,558,095 | 1.44 | 1,444 |
| United Student Aid Funds | | 33,233,480 | 13.41 | 2,592 |
| Others | | 2,923,457 | 1.18 | 880 |
| Total | $ | 247,778,069 | 100.00 | 24,825 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 2,224,973 | 0.90 | 997 |
| Chase Student Loan Servicing, LLC | | 210,448 | 0.08 | 123 |
| Great Lakes Educational Loan Services, Inc | | 162,211,588 | 65.47 | 14,801 |
| Pennsylvania Higher Education Assistance Agency | | 43,850,063 | 17.70 | 3,774 |
| Sallie Mae Servicing | | 39,280,997 | 15.85 | 5,130 |
| Total | $ | 247,778,069 | 100.00 | 24,825 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 97,764,963 | 39.46 | 13,108 |
| Unsubsidized | | 150,013,105 | 60.54 | 11,717 |
| Total | $ | 247,778,069 | 100.00 | 24,825 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 307,428 | 0.12 | 1,088 |
| 500.00 - 999.99 | 992,680 | 0.40 | 1,302 |
| 1,000.00 - 1,999.99 | 3,338,901 | 1.35 | 2,255 |
| 2,000.00 - 2,999.99 | 6,032,490 | 2.43 | 2,365 |
| 3,000.00 - 3,999.99 | 4,929,872 | 1.99 | 1,422 |
| 4,000.00 - 4,999.99 | 8,212,453 | 3.31 | 1,873 |
| 5,000.00 - 5,999.99 | 6,316,881 | 2.55 | 1,139 |
| 6,000.00 - 6,999.99 | 3,201,395 | 1.29 | 497 |
| 7,000.00 - 7,999.99 | 3,796,178 | 1.53 | 503 |
| 8,000.00 - 8,999.99 | 38,041,735 | 15.35 | 4,477 |
| 9,000.00 - 9,999.99 | 4,157,713 | 1.68 | 441 |
| 10,000.00 - 14,999.99 | 35,201,276 | 14.21 | 2,959 |
| 15,000.00 - 19,999.99 | 24,572,169 | 9.92 | 1,402 |
| 20,000.00 - 24,999.99 | 23,480,738 | 9.48 | 1,051 |
| 25,000.00 - 29,999.99 | 24,405,700 | 9.85 | 923 |
| 30,000.00 - 34,999.99 | 8,260,811 | 3.33 | 254 |
| 35,000.00 - 39,999.99 | 5,954,899 | 2.40 | 160 |
| 40,000.00 - 44,999.99 | 5,863,034 | 2.37 | 138 |
| 45,000.00 - 49,999.99 | 4,500,079 | 1.82 | 95 |
| 50,000.00 - 54,999.99 | 4,369,707 | 1.76 | 84 |
| 55,000.00 - 59,999.99 | 4,004,908 | 1.62 | 70 |
| 60,000.00 - 64,999.99 | 3,428,827 | 1.38 | 55 |
| 65,000.00 - 69,999.99 | 3,155,660 | 1.27 | 47 |
| 70,000.00 - 74,999.99 | 2,675,874 | 1.08 | 37 |
| 75,000.00 - 79,999.99 | 2,156,718 | 0.87 | 28 |
| 80,000.00 - 84,999.99 | 2,804,530 | 1.13 | 34 |
| 85,000.00 - 89,999.99 | 1,923,746 | 0.78 | 22 |
| 90,000.00 - 94,999.99 | 1,936,815 | 0.78 | 21 |
| 95,000.00 - 99,999.99 | 1,658,172 | 0.67 | 17 |
| 100,000.00 - 109,999.99 | 2,910,676 | 1.17 | 28 |
| 110,000.00 - 119,999.99 | 1,514,324 | 0.61 | 13 |
| 120,000.00 - 129,999.99 | 871,249 | 0.35 | 7 |
| 130,000.00 - 139,999.99 | 804,687 | 0.32 | 6 |
| 140,000.00 - 149,999.99 | 873,905 | 0.35 | 6 |
| 150,000.00 or greater | 1,121,838 | 0.45 | 6 |
| Total | $ 247,778,069 | 100.00 | 24,825 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 1,713,019 | 0.69 | 129 |
| Alaska | 214,949 | 0.09 | 29 |
| Arizona | 3,002,694 | 1.21 | 210 |
| Arkansas | 1,011,251 | 0.41 | 154 |
| California | 39,638,127 | 16.00 | 4,876 |
| Colorado | 3,000,406 | 1.21 | 229 |
| Connecticut | 8,102,961 | 3.27 | 998 |
| Delaware | 458,224 | 0.18 | 33 |
| Florida | 9,082,182 | 3.67 | 628 |
| Georgia | 5,852,094 | 2.36 | 481 |
| Hawaii | 545,044 | 0.22 | 46 |
| Idaho | 934,323 | 0.38 | 58 |
| Illinois | 10,485,268 | 4.23 | 901 |
| Indiana | 1,621,752 | 0.65 | 162 |
| Iowa | 1,427,108 | 0.58 | 101 |
| Kansas | 1,041,843 | 0.42 | 112 |
| Kentucky | 1,610,616 | 0.65 | 134 |
| Louisiana | 2,233,880 | 0.90 | 294 |
| Maine | 841,679 | 0.34 | 75 |
| Maryland | 3,437,894 | 1.39 | 344 |
| Massachusetts | 3,381,623 | 1.36 | 372 |
| Michigan | 3,730,320 | 1.51 | 304 |
| Minnesota | 18,260,676 | 7.37 | 1,715 |
| Mississippi | 1,182,446 | 0.48 | 102 |
| Missouri | 1,970,999 | 0.80 | 276 |
| Montana | 986,790 | 0.40 | 89 |
| Nebraska | 951,255 | 0.38 | 84 |
| Nevada | 1,671,038 | 0.67 | 196 |
| New Hampshire | 845,638 | 0.34 | 90 |
| New Jersey | 6,121,310 | 2.47 | 681 |
| New Mexico | 832,041 | 0.34 | 83 |
| New York | 24,515,541 | 9.89 | 2,887 |
| North Carolina | 5,676,014 | 2.29 | 418 |
| North Dakota | 1,733,223 | 0.70 | 164 |
| Ohio | 4,599,239 | 1.86 | 403 |
| Oklahoma | 598,125 | 0.24 | 46 |
| Oregon | 5,067,465 | 2.05 | 413 |
| Pennsylvania | 10,331,253 | 4.17 | 943 |
| Rhode Island | 776,877 | 0.31 | 70 |
| South Carolina | 8,684,548 | 3.50 | 647 |
| South Dakota | 1,146,823 | 0.46 | 106 |
| Tennessee | 2,776,468 | 1.12 | 187 |
| Texas | 20,963,664 | 8.46 | 2,678 |
| Utah | 1,609,519 | 0.65 | 100 |
| Vermont | 304,190 | 0.12 | 52 |
| Virginia | 3,309,071 | 1.34 | 386 |
| Washington | 3,769,736 | 1.52 | 290 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 5,696,936 | 2.30 | 200 |
| Wisconsin | 5,680,519 | 2.29 | 456 |
| Wyoming | 210,947 | 0.09 | 20 |
| Other | 4,138,459 | 1.67 | 373 |
| Total | $ 247,778,069 | 100.00 | 24,825 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 16.9 | 6.0 | - | - | 120.0 |
| Grace | - | 2.9 | - | - | 120.0 |
| Deferment | - | - | 7.2 | - | 222.9 |
| Forbearance | - | - | - | 2.8 | 255.2 |
| Repayment | - | - | - | - | 241.2 |
| Claims | - | - | - | - | 142.9 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.00%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.47%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the EdInvest 2003 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the EdInvest 2003 Indenture to liabilities represented by the principal amount of outstanding securities issued under the EdInvest 2003 Indenture was equal to 96.80%. As of July 31, 2008, the ratio of assets in the trust estate under the EdInvest 2003 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the EdInvest 2003 Indenture was equal to 115.22%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 9:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF DECEMBER 1, 2006, BETWEEN BRAZOS STUDENT FINANCE CORPORATION AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Student Finance Corporation ("BSFC") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of December 1, 2006, by and among BSFC, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "BSFC 95 Indenture"). BSFC is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BSFC 95 Indenture

As of July 31, 2008, the following senior securities were outstanding under the BSFC 95 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PDE7 | Series 2006 A-1 | $ 38,100,000 | Dec. 1, 2042 | Taxable Auction Rate | 7 days |
| 10623PDF4 | Series 2006 A-2 | 76,500,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| 10623PDG2 | Series 2006 A-3 | 76,500,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| 10623PDH0 | Series 2006 A-4 | 76,500,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| 10623PDJ6 | Series 2006 A-5 | 76,500,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |
| Total | | $344,100,000 | | | |

### Outstanding Subordinate Securities Under BSFC 95 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the BSFC 95 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PDK3 | Series 2006 B-1 | $45,000,000 | Dec. 1, 2042 | Taxable Auction Rate | 28 days |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BSFC 95 Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the BSFC 95 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BSFC 95 Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BSFC 95 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the BSFC 95 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the BSFC 95 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the BSFC 95 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BSFC 95 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BSFC 95 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by BSFC. BSFC has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the BSFC 95 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the BSFC 95 Indenture.

**Other Obligations**

There are no other obligations secured under the BSFC 95 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BSFC 95 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BSFC 95 Indenture, including a collection account, a principal distribution account, an interest account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BSFC 95 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 231,156 |
| Principal Distribution Account | 2,081,437 |
| Interest Account | 1,282,658 |
| Operating Account* | 92,468 |
| Reserve Account | 3,891,000 |
| Total** | $7,578,720 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the BSFC 95 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BSFC 95 Indenture.

** The dollar amount set forth under "Total" in the table above may not total 100% of the account balances set forth in the table above due to rounding.

Expenses. Under the BSFC 95 Indenture, BSFC incurred $5,833,341 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BSFC 95 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BSFC 95 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $369,763,342 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 2.0% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0% upon entering repayment or after the timely receipt of the initial 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BSFC 95 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $369,763,342 |
| Number of Borrowers (1) | 15,358 |
| Average Outstanding Principal Balance Per Borrower | $ 24,076 |
| Number of Loans | 29,439 |
| Average Outstanding Principal Balance Per Loan | $ 12,560 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 232 |
| Weighted Average Annual Borrower Interest Rate (3) | 5.31% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BSFC determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BSFC determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 2.63 – 2.99 | $ 3,184,201 | 0.86 | 198 |
| 3.00 – 3.49 | 7,388,938 | 2.00 | 410 |
| 3.50 – 3.99 | 20,493,798 | 5.54 | 2,188 |
| 4.00 – 4.49 | 26,595,125 | 7.19 | 5,442 |
| 4.50 – 4.99 | 98,150,900 | 26.54 | 6,737 |
| 5.00 – 5.49 | 102,119,506 | 27.62 | 7,779 |
| 5.50 – 5.99 | 22,790,697 | 6.16 | 1,371 |
| 6.00 – 6.49 | 34,718,366 | 9.39 | 1,666 |
| 6.50 – 6.99 | 22,630,390 | 6.12 | 1,921 |
| 7.00 – 7.49 | 15,131,162 | 4.09 | 977 |
| 7.50 – 7.99 | 5,506,539 | 1.49 | 275 |
| 8.00 – 8.49 | 11,037,108 | 2.98 | 468 |
| 8.50 or greater | 16,612 | 0.00 | 7 |
| Total | $ 369,763,342 | 100.00 | 29,439 |

(1) BSFC determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 347,023,120 | 93.85 | 22,261 |
| HEAL | 30,024 | 0.01 | 1 |
| Other | 375,313 | 0.10 | 40 |
| PLUS/SLS | 56,324 | 0.02 | 11 |
| Stafford | 22,278,560 | 6.03 | 7,126 |
| Total | $ 369,763,342 | 100.00 | 29,439 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 24 | $ 2,899,109 | 0.78 | 2,253 |
| 25 – 36 | 947,814 | 0.26 | 483 |
| 37 – 48 | 1,244,270 | 0.34 | 512 |
| 49 – 60 | 1,113,325 | 0.30 | 419 |
| 61 – 72 | 1,169,364 | 0.32 | 424 |
| 73 – 84 | 1,166,755 | 0.32 | 351 |
| 85 – 96 | 2,822,919 | 0.76 | 700 |
| 97 – 108 | 5,059,837 | 1.37 | 1,198 |
| 109 – 120 | 7,151,740 | 1.93 | 987 |
| 121 – 132 | 695,656 | 0.19 | 98 |
| 133 – 144 | 2,401,117 | 0.65 | 290 |
| 145 – 156 | 18,886,745 | 5.11 | 2,284 |
| 157 – 168 | 40,455,243 | 10.94 | 4,705 |
| 169 – 180 | 6,537,145 | 1.77 | 714 |
| 181 – 192 | 605,344 | 0.16 | 42 |
| 193 – 220 | 103,679,349 | 28.04 | 7,209 |
| 221 – 260 | 36,079,406 | 9.76 | 2,424 |
| 261 – 300 | 72,306,193 | 19.55 | 2,902 |
| 301 – 340 | 41,695,657 | 11.28 | 962 |
| 341 or greater | 22,846,354 | 6.18 | 482 |
| Total | $ 369,763,342 | 100.00 | 29,439 |

(1) BSFC determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Claims* | $ 1,268,571 | 0.34 | 176 |
| Deferment | 37,397,626 | 10.11 | 3,267 |
| Forbearance | 24,834,301 | 6.72 | 1,545 |
| Grace | 2,704,448 | 0.73 | 262 |
| Repayment | 301,177,006 | 81.45 | 23,872 |
| School | 2,381,390 | 0.64 | 317 |
| Total | $ 369,763,342 | 100.00 | 29,439 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 – 30 | $ | 349,963,974 | 94.65 | 27,336 |
| 31 – 60 | | 7,103,974 | 1.92 | 617 |
| 61 – 90 | | 3,292,921 | 0.89 | 326 |
| 91 – 120 | | 2,191,071 | 0.59 | 255 |
| 121 – 150 | | 1,142,319 | 0.31 | 157 |
| 151 – 180 | | 1,145,845 | 0.31 | 132 |
| 181 or greater* | | 4,923,239 | 1.33 | 616 |
| Total | $ | 369,763,342 | 100.00 | 29,439 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 35,418 | 0.01 | 20 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 3,062,341 | 0.83 | 1,189 |
| Jan. 1, 2000 - June 30, 2006 | | 34,052,162 | 9.21 | 6,529 |
| July 1, 2006 - Sept. 30, 2007 | | 325,561,066 | 88.05 | 21,397 |
| On or after Oct. 1, 2007 | | 7,052,355 | 1.91 | 304 |
| Total | $ | 369,763,342 | 100.00 | 29,439 |

**Distribution of the Student Loans by Guarantee Agency as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 333,015,186 | 90.06 | 21,772 |
| California Student Aid Commission | | 17,168,903 | 4.64 | 2,878 |
| Great Lakes Higher Education Guaranty Corporation | | 5,469,548 | 1.48 | 254 |
| Pennsylvania Higher Education Assistance Agency | | 329,374 | 0.09 | 102 |
| Texas Guaranteed Student Loan Corporation | | 54,650 | 0.01 | 22 |
| United Student Aid Funds | | 6,397,353 | 1.73 | 2,467 |
| Others | | 7,328,328 | 1.98 | 1,944 |
| Total | $ | 369,763,342 | 100.00 | 29,439 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 366,593,651 | 99.14 | 29,153 |
| Chase Student Loan Servicing, LLC | | 59,777 | 0.02 | 11 |
| Great Lakes Educational Loan Services, Inc | | 2,145,671 | 0.58 | 50 |
| Pennsylvania Higher Education Assistance Agency | | 216,799 | 0.06 | 38 |
| Sallie Mae Servicing | | 747,445 | 0.20 | 187 |
| Total | $ | 369,763,342 | 100.00 | 29,439 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 168,800,959 | 45.65 | 14,907 |
| Unsubsidized | | 200,962,384 | 54.35 | 14,532 |
| Total | $ | 369,763,342 | 100.00 | 29,439 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 – 499.99 | $ 246,532 | 0.07 | 893 |
| 500.00 – 999.99 | 809,774 | 0.22 | 1,070 |
| 1,000.00 – 1,999.99 | 3,487,611 | 0.94 | 2,326 |
| 2,000.00 – 2,999.99 | 5,536,037 | 1.50 | 2,221 |
| 3,000.00 – 3,999.99 | 4,774,700 | 1.29 | 1,369 |
| 4,000.00 – 4,999.99 | 5,763,573 | 1.56 | 1,278 |
| 5,000.00 – 5,999.99 | 7,049,965 | 1.91 | 1,288 |
| 6,000.00 – 6,999.99 | 6,591,104 | 1.78 | 1,017 |
| 7,000.00 – 7,999.99 | 8,629,538 | 2.33 | 1,149 |
| 8,000.00 – 8,999.99 | 11,004,303 | 2.98 | 1,296 |
| 9,000.00 – 9,999.99 | 10,030,170 | 2.71 | 1,056 |
| 10,000.00 – 14,999.99 | 63,588,376 | 17.20 | 5,153 |
| 15,000.00 – 19,999.99 | 65,961,623 | 17.84 | 3,835 |
| 20,000.00 – 24,999.99 | 49,124,490 | 13.29 | 2,210 |
| 25,000.00 – 29,999.99 | 30,975,831 | 8.38 | 1,136 |
| 30,000.00 – 34,999.99 | 24,373,946 | 6.59 | 753 |
| 35,000.00 – 39,999.99 | 15,978,310 | 4.32 | 429 |
| 40,000.00 – 44,999.99 | 12,056,429 | 3.26 | 285 |
| 45,000.00 – 49,999.99 | 9,008,720 | 2.44 | 191 |
| 50,000.00 – 54,999.99 | 5,609,932 | 1.52 | 107 |
| 55,000.00 – 59,999.99 | 4,751,383 | 1.28 | 83 |
| 60,000.00 – 64,999.99 | 3,688,721 | 1.00 | 59 |
| 65,000.00 – 69,999.99 | 3,319,054 | 0.90 | 49 |
| 70,000.00 – 74,999.99 | 3,192,467 | 0.86 | 44 |
| 75,000.00 – 79,999.99 | 2,395,819 | 0.65 | 31 |
| 80,000.00 – 84,999.99 | 1,308,888 | 0.35 | 16 |
| 85,000.00 – 89,999.99 | 1,487,950 | 0.40 | 17 |
| 90,000.00 – 94,999.99 | 1,951,334 | 0.53 | 21 |
| 95,000.00 – 99,999.99 | 1,262,300 | 0.34 | 13 |
| 100,000.00 – 109,999.99 | 1,042,232 | 0.28 | 10 |
| 110,000.00 – 119,999.99 | 1,373,301 | 0.37 | 12 |
| 120,000.00 – 129,999.99 | 491,515 | 0.13 | 4 |
| 130,000.00 – 139,999.99 | 404,951 | 0.11 | 3 |
| 140,000.00 – 149,999.99 | 874,855 | 0.24 | 6 |
| 150,000.00 or greater | 1,617,608 | 0.44 | 9 |
| Total | $ 369,763,342 | 100.00 | 29,439 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 4,291,938 | 1.16 | 269 |
| Alaska | 786,410 | 0.21 | 58 |
| Arizona | 9,168,220 | 2.48 | 966 |
| Arkansas | 2,074,641 | 0.56 | 124 |
| California | 49,296,067 | 13.33 | 5,476 |
| Colorado | 8,205,188 | 2.22 | 518 |
| Connecticut | 3,684,342 | 1.00 | 370 |
| Delaware | 908,377 | 0.25 | 59 |
| Florida | 13,406,602 | 3.63 | 948 |
| Georgia | 10,225,809 | 2.77 | 677 |
| Hawaii | 1,477,217 | 0.40 | 108 |
| Idaho | 2,132,443 | 0.58 | 192 |
| Illinois | 18,987,281 | 5.13 | 1,178 |
| Indiana | 6,097,056 | 1.65 | 447 |
| Iowa | 3,872,182 | 1.05 | 291 |
| Kansas | 3,794,067 | 1.03 | 249 |
| Kentucky | 3,288,285 | 0.89 | 235 |
| Louisiana | 4,097,618 | 1.11 | 237 |
| Maine | 1,385,400 | 0.37 | 98 |
| Maryland | 8,151,550 | 2.20 | 673 |
| Massachusetts | 9,627,674 | 2.60 | 923 |
| Michigan | 12,439,851 | 3.36 | 796 |
| Minnesota | 9,292,071 | 2.51 | 708 |
| Mississippi | 1,540,888 | 0.42 | 93 |
| Missouri | 5,982,529 | 1.62 | 408 |
| Montana | 960,556 | 0.26 | 64 |
| Nebraska | 1,886,037 | 0.51 | 123 |
| Nevada | 2,445,866 | 0.66 | 235 |
| New Hampshire | 1,599,133 | 0.43 | 134 |
| New Jersey | 11,306,636 | 3.06 | 799 |
| New Mexico | 1,215,407 | 0.33 | 106 |
| New York | 30,193,879 | 8.17 | 2,369 |
| North Carolina | 6,489,827 | 1.76 | 508 |
| North Dakota | 792,578 | 0.21 | 67 |
| Ohio | 19,991,388 | 5.41 | 1,319 |
| Oklahoma | 2,696,394 | 0.73 | 203 |
| Oregon | 7,472,075 | 2.02 | 772 |
| Pennsylvania | 21,809,163 | 5.90 | 1,588 |
| Rhode Island | 1,080,188 | 0.29 | 139 |
| South Carolina | 3,815,549 | 1.03 | 271 |
| South Dakota | 756,389 | 0.20 | 56 |
| Tennessee | 4,258,247 | 1.15 | 319 |
| Texas | 21,117,124 | 5.71 | 1,324 |
| Utah | 2,001,684 | 0.54 | 165 |
| Vermont | 342,801 | 0.09 | 23 |
| Virginia | 11,026,330 | 2.98 | 1,118 |
| Washington | 10,228,224 | 2.77 | 769 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 2,171,949 | 0.59 | 148 |
| Wisconsin | 7,196,437 | 1.95 | 507 |
| Wyoming | 734,200 | 0.20 | 57 |
| Other | 1,961,576 | 0.53 | 155 |
| Total | $ 369,763,342 | 100.00 | 29,439 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 19.4 | 6.0 | - | - | 120.0 |
| Grace | - | 3.6 | - | - | 120.0 |
| Deferment | - | - | 17.7 | - | 239.1 |
| Forbearance | - | - | - | 4.1 | 265.1 |
| Repayment | - | - | - | - | 230.8 |
| Claims | - | - | - | - | 194.4 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.92%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.62%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BSFC 95 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 95 Indenture to liabilities represented by the principal amount of outstanding securities issued under the BSFC 95 Indenture was equal to 97.26%. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 95 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BSFC 95 Indenture was equal to 109.98%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 10:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## AMENDED AND RESTATED INDENTURE OF TRUST DATED AS OF FEBRUARY 1, 2007, BETWEEN BRAZOS HIGHER EDUCATION AUTHORITY, INC. AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE AND AS ELIGIBLE LENDER TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Higher Education Authority, Inc. ("BHEA") has issued securities pursuant to an Amended and Restated Indenture of Trust, dated as of February 1, 2007, by and among BHEA, U.S. Bank National Association, as trustee, and U.S. Bank National Association, as eligible lender trustee (together with all exhibits, schedules and appendices thereto, the "BHEA 92C Indenture"). BHEA is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BHEA 92C Indenture

As of July 31, 2008, the following senior securities were outstanding under the BHEA 92C Indenture:

| CUSIP | Series of Senior Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238HH4 | Series 2002 A-1 | $ 24,700,000 | Dec. 1, 2036 | Tax-Exempt Auction Rate | 35 days |
| 106238HK7 | Series 2002 A-2 | 35,600,000 | Dec. 1, 2036 | Taxable Auction Rate | 28 days |
| 106238HL5 | Series 2002 A-3 | 15,000,000 | Dec. 1, 2036 | Taxable Auction Rate | 28 days |
| 106238JB5 | Series 2003 A-1 | 35,000,000 | Dec. 1, 2037 | Tax-Exempt Auction Rate | 35 days |
| 106238JE9 | Series 2003 A-2 | 4,900,000 | May 1, 2009 | Tax-Exempt Auction Rate | 35 days |
| 106238ME5 | Series 2007 A-1 | 71,600,000 | June 1, 2043 | Tax-Exempt Auction Rate | 35 days |
| 10620NBP2 | Series 2007 A-2 | 40,400,000 | June 1, 2043 | Taxable Auction Rate | 28 days |
| 10620NBQ0 | Series 2007 A-3 | 32,000,000 | June 1, 2043 | Taxable Auction Rate | 28 days |
| 10620NBR8 | Series 2007 A-4 | 16,000,000 | June 1, 2043 | Taxable Auction Rate | 28 days |
| Total | | $275,200,000 | | | |

### Outstanding Subordinate Securities Under BHEA 92C Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the BHEA 92C Indenture:

| CUSIP | Series of Subordinate Bonds | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 106238GP7 | Series 2001 B-1 | $35,000,000 | Feb. 1, 2036 | Tax-Exempt Auction Rate | 35 days |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BHEA 92C Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the BHEA 92C Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BHEA 92C Indenture. Holders of such securities should contact their

broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BHEA 92C Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their securities which are designated as "Taxable Auction Rate" above.

**Redemption of the Securities**

The outstanding auction rate securities (other than the Series 2001 B-1 bonds described below) issued under the BHEA 92C Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no outstanding taxable auction rate securities, which have accrued but unpaid interest carryover (as calculated under the BHEA 92C Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

The Series 2001 B-1 bonds issued under the BHEA 92C Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on each related interest payment date for such series at a redemption price of par plus accrued but unpaid interest, without premium. The interest payment dates with respect to the Series 2001 B-1 bonds are each May 1 and November 1, or if such date is not a business day, the interest payment date will be the next business day.

Pursuant to the terms of the BHEA 92C Indenture, the securities designated as "Tax-Exempt Auction Rate" above are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 92C Indenture, mandatory redemptions from excess cash flows within a particular class of the outstanding tax-exempt auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

Pursuant to the terms of the BHEA 92C Indenture, the outstanding taxable auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BHEA 92C Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding taxable auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BHEA 92C Indenture, mandatory redemptions from excess cash flows of the outstanding taxable auction rate securities are generally made in ascending order of series designation or as otherwise directed by BHEA. BHEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the BHEA 92C Indenture, holders of not less than 60% of the aggregate principal amount of the bonds outstanding thereunder are required to consent to the supplemental indenture to the BHEA 92C Indenture.

**Other Obligations**

Rebate Obligation. Under the BHEA 92C Indenture, BHEA is required to pay, or cause to be paid, to the United States of America the amount required to be rebated with respect to the tax-exempt securities issued under the BHEA 92C Indenture. As of July 31, 2008, the amount of this rebate liability was approximately $365,853. Under the terms of the BHEA 92C Indenture, BHEA is required to pay to the United States certain excess interest yield adjustment payments to reduce the amount of yield on the student loans financed by the tax-exempt auction rate securities to a yield that is not materially higher than the yield on the tax-exempt auction rate securities plus a permitted spread. As of July 31, 2008, there were no amounts of excess interest liability to be paid to the U.S. government.

There are no other obligations secured under the BHEA 92C Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BHEA 92C Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BHEA 92C Indenture, including a collection account, a principal distribution account, an interest account, a student loan account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BHEA 92C Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 400,448 |
| Principal Distribution Account | 5,851,225 |
| Interest Account | 1,623,142 |
| Operating Account* | 91,177 |
| Student Loan Account | 2,330,067 |
| Rebate Account* | 619,340 |
| Reserve Account | 4,604,000 |
| Total | $15,519,399 |

* The Operating Account and the Rebate Account are not pledged funds and are not held for the benefit of the holders of the securities issued under the BHEA 92C Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BHEA 92C Indenture. Amounts in the Rebate Account are held in trust for the United States of America to fulfill BHEA's obligations to rebate certain arbitrage profits to the United States.

Expenses. Under the BHEA 92C Indenture, BHEA incurred $4,176,851 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BHEA 92C Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BHEA 92C Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $284,610,826 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.5% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36, 48 or 60 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 2.5% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 4.0%

upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BHEA 92C Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $284,610,826 |
| Number of Borrowers (1) | 30,634 |
| Average Outstanding Principal Balance Per Borrower | $ 9,291 |
| Number of Loans | 73,488 |
| Average Outstanding Principal Balance Per Loan | $ 3,873 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 120 |
| Weighted Average Annual Borrower Interest Rate (3) | 5.21% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BHEA determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BHEA determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.61 – 2.99 | $ 10,875,363 | 3.82 | 768 |
| 3.00 – 3.49 | 8,864,996 | 3.11 | 340 |
| 3.50 – 3.99 | 47,834,402 | 16.81 | 12,826 |
| 4.00 – 4.49 | 101,666,631 | 35.72 | 34,332 |
| 4.50 – 4.99 | 3,496,129 | 1.23 | 176 |
| 5.00 – 5.49 | 7,682,973 | 2.70 | 2,591 |
| 5.50 – 5.99 | 1,257,995 | 0.44 | 84 |
| 6.00 – 6.49 | 1,551,989 | 0.55 | 77 |
| 6.50 – 6.99 | 60,944,345 | 21.41 | 18,566 |
| 7.00 – 7.49 | 995,777 | 0.35 | 68 |
| 7.50 – 7.99 | 351,326 | 0.12 | 20 |
| 8.00 – 8.49 | 3,715,373 | 1.31 | 300 |
| 8.50 or greater | 35,373,527 | 12.43 | 3,340 |
| Total | $ 284,610,826 | 100.00 | 73,488 |

(1) BHEA determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 44,631,482 | 15.68 | 1,963 |
| PLUS/SLS | 42,125,643 | 14.80 | 4,420 |
| Stafford | 197,853,700 | 69.52 | 67,105 |
| Total | $ 284,610,826 | 100.00 | 73,488 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 24 | $ 12,569,606 | 4.42 | 9,180 |
| 25 – 36 | 4,575,946 | 1.61 | 2,809 |
| 37 – 48 | 6,039,062 | 2.12 | 2,836 |
| 49 – 60 | 8,923,095 | 3.14 | 3,794 |
| 61 – 72 | 12,762,374 | 4.48 | 4,714 |
| 73 – 84 | 15,243,661 | 5.36 | 5,035 |
| 85 – 96 | 32,440,829 | 11.40 | 9,162 |
| 97 – 108 | 78,782,955 | 27.68 | 18,462 |
| 109 – 120 | 69,017,549 | 24.25 | 15,552 |
| 121 – 132 | 677,699 | 0.24 | 82 |
| 133 – 144 | 383,915 | 0.13 | 50 |
| 145 – 156 | 911,570 | 0.32 | 113 |
| 157 – 168 | 1,527,300 | 0.54 | 174 |
| 169 – 180 | 2,543,815 | 0.89 | 227 |
| 181 – 192 | 1,610,629 | 0.57 | 135 |
| 193 – 220 | 2,677,411 | 0.94 | 180 |
| 221 – 260 | 5,963,303 | 2.10 | 301 |
| 261 – 300 | 11,368,796 | 3.99 | 388 |
| 301 – 340 | 10,028,364 | 3.52 | 196 |
| 341 or greater | 6,562,949 | 2.31 | 98 |
| Total | $ 284,610,826 | 100.00 | 73,488 |

(1) BHEA determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 3,778,112 | 1.33 | 1,329 |
| Deferment | | 46,563,920 | 16.36 | 11,543 |
| Forbearance | | 25,541,537 | 8.97 | 5,647 |
| Grace | | 9,606,222 | 3.38 | 2,665 |
| Repayment | | 174,414,119 | 61.28 | 45,311 |
| School | | 24,706,916 | 8.68 | 6,993 |
| Total | $ | 284,610,826 | 100.00 | 73,488 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 – 30 | $ | 251,682,154 | 88.43 | 62,689 |
| 31 – 60 | | 8,302,832 | 2.92 | 2,308 |
| 61 – 90 | | 3,684,762 | 1.29 | 1,217 |
| 91 – 120 | | 3,616,135 | 1.27 | 1,129 |
| 121 – 150 | | 2,815,717 | 0.99 | 1,047 |
| 151 – 180 | | 2,084,763 | 0.73 | 724 |
| 181 or greater* | | 12,424,462 | 4.37 | 4,374 |
| Total | $ | 284,610,826 | 100.00 | 73,488 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 38,551 | 0.01 | 28 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 12,148,117 | 4.27 | 5,966 |
| Jan. 1, 2000 - June 30, 2006 | | 174,728,735 | 61.39 | 45,295 |
| July 1, 2006 - Sept. 30, 2007 | | 95,493,861 | 33.55 | 21,459 |
| On or after Oct. 1, 2007 | | 2,201,563 | 0.77 | 740 |
| Total | $ | 284,610,826 | 100.00 | 73,488 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 15,819,555 | 5.56 | 3,711 |
| California Student Aid Commission | | 16,534,880 | 5.81 | 3,957 |
| Great Lakes Higher Education Guaranty Corporation | | 13,073,037 | 4.59 | 591 |
| Kentucky Higher Education Assistance Authority | | 251,823 | 0.09 | 18 |
| Pennsylvania Higher Education Assistance Agency | | 39,192,175 | 13.77 | 5,434 |
| Texas Guaranteed Student Loan Corporation | | 152,019,011 | 53.41 | 45,362 |
| United Student Aid Funds | | 15,638,098 | 5.49 | 4,729 |
| Others | | 32,082,246 | 11.27 | 9,686 |
| Total | $ | 284,610,826 | 100.00 | 73,488 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 203,153,324 | 71.38 | 59,783 |
| Chase Student Loan Servicing, LLC | | 1,377,991 | 0.48 | 100 |
| Great Lakes Educational Loan Services, Inc | | 11,365,764 | 3.99 | 491 |
| Pennsylvania Higher Education Assistance Agency | | 62,076,431 | 21.81 | 11,356 |
| Sallie Mae Servicing | | 6,637,316 | 2.33 | 1,758 |
| Total | $ | 284,610,826 | 100.00 | 73,488 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 125,301,688 | 44.03 | 40,921 |
| Unsubsidized | | 159,309,137 | 55.97 | 32,567 |
| Total | $ | 284,610,826 | 100.00 | 73,488 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 – 499.99 | $ 1,206,113 | 0.42 | 4,445 |
| 500.00 – 999.99 | 4,854,343 | 1.71 | 6,333 |
| 1,000.00 – 1,999.99 | 22,469,882 | 7.89 | 15,095 |
| 2,000.00 – 2,999.99 | 44,139,099 | 15.51 | 17,444 |
| 3,000.00 – 3,999.99 | 30,588,308 | 10.75 | 8,835 |
| 4,000.00 – 4,999.99 | 30,899,172 | 10.86 | 6,868 |
| 5,000.00 – 5,999.99 | 33,093,764 | 11.63 | 6,040 |
| 6,000.00 – 6,999.99 | 9,878,794 | 3.47 | 1,544 |
| 7,000.00 – 7,999.99 | 7,526,692 | 2.64 | 1,002 |
| 8,000.00 – 8,999.99 | 11,451,869 | 4.02 | 1,350 |
| 9,000.00 – 9,999.99 | 6,005,120 | 2.11 | 637 |
| 10,000.00 – 14,999.99 | 22,548,252 | 7.92 | 1,881 |
| 15,000.00 – 19,999.99 | 12,104,655 | 4.25 | 703 |
| 20,000.00 – 24,999.99 | 9,016,154 | 3.17 | 405 |
| 25,000.00 – 29,999.99 | 6,969,144 | 2.45 | 255 |
| 30,000.00 – 34,999.99 | 5,944,245 | 2.09 | 185 |
| 35,000.00 – 39,999.99 | 3,933,150 | 1.38 | 106 |
| 40,000.00 – 44,999.99 | 4,113,406 | 1.45 | 98 |
| 45,000.00 – 49,999.99 | 2,918,376 | 1.03 | 62 |
| 50,000.00 – 54,999.99 | 1,675,948 | 0.59 | 32 |
| 55,000.00 – 59,999.99 | 2,005,291 | 0.70 | 35 |
| 60,000.00 – 64,999.99 | 1,503,099 | 0.53 | 24 |
| 65,000.00 – 69,999.99 | 1,347,255 | 0.47 | 20 |
| 70,000.00 – 74,999.99 | 1,080,697 | 0.38 | 15 |
| 75,000.00 – 79,999.99 | 1,000,350 | 0.35 | 13 |
| 80,000.00 – 84,999.99 | 740,111 | 0.26 | 9 |
| 85,000.00 – 89,999.99 | 1,040,390 | 0.37 | 12 |
| 90,000.00 – 94,999.99 | 642,878 | 0.23 | 7 |
| 95,000.00 – 99,999.99 | 579,006 | 0.20 | 6 |
| 100,000.00 – 109,999.99 | 821,050 | 0.29 | 8 |
| 110,000.00 – 119,999.99 | 800,119 | 0.28 | 7 |
| 120,000.00 – 129,999.99 | 373,511 | 0.13 | 3 |
| 130,000.00 – 139,999.99 | 669,054 | 0.24 | 5 |
| 150,000.00 or greater | 671,529 | 0.24 | 4 |
| Total | $ 284,610,826 | 100.00 | 73,488 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 731,316 | 0.26 | 119 |
| Alaska | 364,028 | 0.13 | 149 |
| Arizona | 4,286,517 | 1.51 | 1,236 |
| Arkansas | 999,024 | 0.35 | 225 |
| California | 19,710,515 | 6.93 | 3,670 |
| Colorado | 1,891,131 | 0.66 | 353 |
| Connecticut | 4,164,173 | 1.46 | 934 |
| Delaware | 1,038,499 | 0.36 | 366 |
| Florida | 4,251,572 | 1.49 | 892 |
| Georgia | 2,386,131 | 0.84 | 352 |
| Hawaii | 379,812 | 0.13 | 81 |
| Idaho | 1,238,292 | 0.44 | 407 |
| Illinois | 3,526,371 | 1.24 | 382 |
| Indiana | 901,584 | 0.32 | 135 |
| Iowa | 350,841 | 0.12 | 57 |
| Kansas | 997,154 | 0.35 | 204 |
| Kentucky | 992,418 | 0.35 | 104 |
| Louisiana | 3,104,105 | 1.09 | 688 |
| Maine | 689,276 | 0.24 | 94 |
| Maryland | 3,869,324 | 1.36 | 992 |
| Massachusetts | 10,824,146 | 3.80 | 3,037 |
| Michigan | 1,264,033 | 0.44 | 168 |
| Minnesota | 906,619 | 0.32 | 106 |
| Mississippi | 352,491 | 0.12 | 78 |
| Missouri | 1,694,490 | 0.60 | 295 |
| Montana | 306,446 | 0.11 | 64 |
| Nebraska | 400,869 | 0.14 | 58 |
| Nevada | 1,463,966 | 0.51 | 318 |
| New Hampshire | 950,692 | 0.33 | 200 |
| New Jersey | 4,185,387 | 1.47 | 618 |
| New Mexico | 1,227,762 | 0.43 | 314 |
| New York | 20,402,520 | 7.17 | 4,710 |
| North Carolina | 3,334,759 | 1.17 | 816 |
| North Dakota | 305,368 | 0.11 | 41 |
| Ohio | 2,245,449 | 0.79 | 346 |
| Oklahoma | 1,671,341 | 0.59 | 343 |
| Oregon | 2,105,364 | 0.74 | 594 |
| Pennsylvania | 8,206,593 | 2.88 | 2,512 |
| Rhode Island | 1,723,934 | 0.61 | 226 |
| South Carolina | 876,155 | 0.31 | 176 |
| South Dakota | 65,008 | 0.02 | 16 |
| Tennessee | 1,608,875 | 0.57 | 303 |
| Texas | 146,187,113 | 51.36 | 42,135 |
| Utah | 232,129 | 0.08 | 67 |
| Vermont | 116,426 | 0.04 | 32 |
| Virginia | 7,136,016 | 2.51 | 2,052 |
| Washington | 4,188,134 | 1.47 | 1,255 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 1,639,423 | 0.58 | 609 |
| Wisconsin | 1,065,462 | 0.37 | 152 |
| Wyoming | 90,301 | 0.03 | 26 |
| Other | 1,961,472 | 0.69 | 381 |
| Total | $ 284,610,826 | 100.00 | 73,488 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 22.5 | 6.0 | - | - | 120.0 |
| Grace | - | 3.5 | - | - | 120.0 |
| Deferment | - | - | 13.6 | - | 117.9 |
| Forbearance | - | - | - | 3.6 | 126.7 |
| Repayment | - | - | - | - | 122.6 |
| Claims | - | - | - | - | 85.8 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.90%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.43%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BHEA 92C Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 92C Indenture to liabilities represented by the principal amount of outstanding securities issued under the BHEA 92C Indenture was equal to 96.96%. As of July 31, 2008, the ratio of assets in the trust estate under the BHEA 92C Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BHEA 92C Indenture was equal to 109.29%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 11:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## INDENTURE OF TRUST DATED AS OF APRIL 1, 2004, BETWEEN TRINITY HIGHER EDUCATION AUTHORITY, INC. AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Trinity Higher Education Authority, Inc. ("THEA") has issued securities pursuant to an Indenture of Trust, dated as of April 1, 2004, by and among THEA and U.S. Bank National Association, as trustee (together with all exhibits, schedules and appendices thereto, the "THEA 2004 Indenture"). THEA is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under THEA 2004 Indenture

As of July 31, 2008, the following senior securities were outstanding under the THEA 2004 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 896518AB3 | Series 2004 A-1 | $39,000,000 | June 1, 2040 | Taxable Auction Rate | 28 days |

### Outstanding Subordinate Securities Under THEA 2004 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the THEA 2004 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 896518AC1 | Series 2004 B-1 | $14,000,000 | June 1, 2040 | Taxable Auction Rate | 28 days |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the THEA 2004 Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the THEA 2004 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the THEA 2004 Indenture. Holders of such securities should contact their broker-dealer to determine current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the THEA 2004 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the THEA 2004 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the THEA 2004 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the THEA 2004 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the THEA 2004 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BSFC 2003-2 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by THEA. THEA has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the THEA 2004 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the THEA 2004 Indenture.

**Other Obligations**

There are no other obligations secured under the THEA 2004 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the THEA 2004 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the THEA 2004 Indenture, including a collection account, a principal distribution account, an interest account, a reserve account, a student loan account and an alternative loan guarantee account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the THEA 2004 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 231,963 |
| Principal Distribution Account | 172,828 |
| Interest Account | 164,595 |
| Reserve Account | 530,000 |
| Student Loan Account | 9,120 |
| Operating Account* | 4,182 |
| Alternative Loan Guarantee Account | 382,550 |
| Total | $1,495,238 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the THEA 2004 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under THEA 2004 Indenture.

Expenses. Under the THEA 2004 Indenture, THEA incurred $797,264 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the THEA 2004 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the THEA 2004 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $50,920,797 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 0.25% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 1.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the THEA 2004 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $50,920,797 |
| Number of Borrowers (1) | 2,127 |
| Average Outstanding Principal Balance Per Borrower | $ 23,940 |
| Number of Loans | 3,215 |
| Average Outstanding Principal Balance Per Loan | $ 15,839 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 251 |
| Weighted Average Annual Borrower Interest Rate (3) | 3.82% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) THEA determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) THEA determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.63 – 2.99 | $ 8,414,315 | 16.52 | 460 |
| 3.00 – 3.49 | 7,937,073 | 15.59 | 317 |
| 3.50 – 3.99 | 12,370,438 | 24.29 | 881 |
| 4.00 – 4.49 | 10,579,083 | 20.78 | 758 |
| 4.50 – 4.99 | 6,300,424 | 12.37 | 232 |
| 5.00 – 5.49 | 3,437,553 | 6.75 | 481 |
| 5.50 – 5.99 | 191,957 | 0.38 | 11 |
| 6.00 – 6.49 | 665,639 | 1.31 | 36 |
| 6.50 – 6.99 | 518,097 | 1.02 | 21 |
| 7.00 – 7.49 | 117,478 | 0.23 | 5 |
| 7.50 – 7.99 | 315,411 | 0.62 | 7 |
| 8.00 or greater | 73,330 | 0.14 | 6 |
| Total | $ 50,920,797 | 100.00 | 3,215 |

(1) THEA determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 40,517,170 | 79.57 | 1,950 |
| Other | 6,726,011 | 13.21 | 269 |
| PLUS/SLS | 2,370,926 | 4.66 | 446 |
| Stafford | 1,306,689 | 2.57 | 550 |
| Total | $ 50,920,797 | 100.00 | 3,215 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 1,534,008 | 3.01 | 373 |
| 25 - 36 | 314,160 | 0.62 | 94 |
| 37 - 48 | 329,590 | 0.65 | 79 |
| 49 - 60 | 296,907 | 0.58 | 83 |
| 61 - 72 | 560,578 | 1.10 | 137 |
| 73 - 84 | 501,618 | 0.99 | 103 |
| 85 - 96 | 354,483 | 0.70 | 93 |
| 97 - 108 | 457,189 | 0.90 | 92 |
| 109 - 120 | 1,339,723 | 2.63 | 158 |
| 121 - 132 | 1,594,745 | 3.13 | 220 |
| 133 - 144 | 579,431 | 1.14 | 73 |
| 145 - 156 | 539,882 | 1.06 | 60 |
| 157 - 168 | 364,142 | 0.72 | 35 |
| 169 - 180 | 1,586,057 | 3.11 | 181 |
| 181 - 192 | 3,123,616 | 6.13 | 229 |
| 193 - 220 | 2,842,813 | 5.58 | 188 |
| 221 - 260 | 10,770,063 | 21.15 | 499 |
| 261 - 300 | 5,124,098 | 10.06 | 184 |
| 301 - 340 | 6,350,785 | 12.47 | 137 |
| 341 or greater | 12,356,910 | 24.27 | 197 |
| Total | $ 50,920,797 | 100.00 | 3,215 |

(1) THEA determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 82,739 | 0.16 | 9 |
| Deferment | | 9,791,105 | 19.23 | 489 |
| Forbearance | | 5,091,396 | 10.00 | 204 |
| Grace | | 709,160 | 1.39 | 37 |
| Repayment | | 35,006,754 | 68.75 | 2,433 |
| School | | 239,644 | 0.47 | 43 |
| Total | $ | 50,920,797 | 100.00 | 3,215 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 – 30 | $ | 47,871,211 | 94.01 | 2,964 |
| 31 – 60 | | 1,259,049 | 2.47 | 86 |
| 61 – 90 | | 339,051 | 0.67 | 45 |
| 91 – 120 | | 228,269 | 0.45 | 22 |
| 121 – 150 | | 641,382 | 1.26 | 33 |
| 151 – 180 | | 134,888 | 0.26 | 21 |
| 181 or greater* | | 446,947 | 0.88 | 44 |
| Total | $ | 50,920,797 | 100.00 | 3,215 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Oct. 1, 1993 - Dec. 31, 1999 | $ | 28,364 | 0.06 | 4 |
| Jan. 1, 2000 - June 30, 2006 | | 50,892,433 | 99.94 | 3,211 |
| Total | $ | 50,920,797 | 100.00 | 3,215 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| California Student Aid Commission | $ | 42,963 | 0.08 | 10 |
| Great Lakes Higher Education Guaranty Corporation | | 3,236,500 | 6.36 | 242 |
| Kentucky Higher Education Assistance Authority | | 2,824 | 0.01 | 2 |
| Pennsylvania Higher Education Assistance Agency | | 24,127,254 | 47.38 | 1,546 |
| Texas Guaranteed Student Loan Corporation | | 317,181 | 0.62 | 83 |
| United Student Aid Funds | | 16,332,038 | 32.07 | 1,026 |
| Others | | 6,862,037 | 13.48 | 306 |
| Total | $ | 50,920,797 | 100.00 | 3,215 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 7,052,413 | 13.85 | 964 |
| Chase Student Loan Servicing, LLC | | 22,473 | 0.04 | 2 |
| Great Lakes Educational Loan Services, Inc | | 9,827,036 | 19.30 | 496 |
| Pennsylvania Higher Education Assistance Agency | | 20,160,308 | 39.59 | 1,250 |
| Sallie Mae Servicing | | 13,858,567 | 27.22 | 503 |
| Total | $ | 50,920,797 | 100.00 | 3,215 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 17,908,253 | 35.17 | 1,255 |
| Unsubsidized | | 33,012,544 | 64.83 | 1,960 |
| Total | $ | 50,920,797 | 100.00 | 3,215 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.03 – 499.99 | $ 20,236 | 0.04 | 80 |
| 500.00 – 999.99 | 79,659 | 0.16 | 102 |
| 1,000.00 – 1,999.99 | 394,186 | 0.77 | 259 |
| 2,000.00 – 2,999.99 | 695,614 | 1.37 | 276 |
| 3,000.00 – 3,999.99 | 687,147 | 1.35 | 201 |
| 4,000.00 – 4,999.99 | 727,805 | 1.43 | 161 |
| 5,000.00 – 5,999.99 | 839,784 | 1.65 | 153 |
| 6,000.00 – 6,999.99 | 964,023 | 1.89 | 149 |
| 7,000.00 – 7,999.99 | 871,641 | 1.71 | 116 |
| 8,000.00 – 8,999.99 | 1,173,153 | 2.30 | 138 |
| 9,000.00 – 9,999.99 | 913,402 | 1.79 | 96 |
| 10,000.00 – 14,999.99 | 4,776,616 | 9.38 | 392 |
| 15,000.00 – 19,999.99 | 4,426,105 | 8.69 | 254 |
| 20,000.00 – 24,999.99 | 4,161,630 | 8.17 | 187 |
| 25,000.00 – 29,999.99 | 3,778,510 | 7.42 | 137 |
| 30,000.00 – 34,999.99 | 5,090,529 | 10.00 | 159 |
| 35,000.00 – 39,999.99 | 2,719,687 | 5.34 | 73 |
| 40,000.00 – 44,999.99 | 2,970,390 | 5.83 | 70 |
| 45,000.00 – 49,999.99 | 1,656,987 | 3.25 | 35 |
| 50,000.00 – 54,999.99 | 1,248,390 | 2.45 | 24 |
| 55,000.00 – 59,999.99 | 1,389,565 | 2.73 | 24 |
| 60,000.00 – 64,999.99 | 1,433,458 | 2.82 | 23 |
| 65,000.00 – 69,999.99 | 1,013,496 | 1.99 | 15 |
| 70,000.00 – 74,999.99 | 1,369,250 | 2.69 | 19 |
| 75,000.00 – 79,999.99 | 847,144 | 1.66 | 11 |
| 80,000.00 – 84,999.99 | 660,281 | 1.30 | 8 |
| 85,000.00 – 89,999.99 | 1,051,548 | 2.07 | 12 |
| 90,000.00 – 94,999.99 | 364,222 | 0.72 | 4 |
| 95,000.00 – 99,999.99 | 584,141 | 1.15 | 6 |
| 100,000.00 – 109,999.99 | 1,053,888 | 2.07 | 10 |
| 110,000.00 – 119,999.99 | 694,365 | 1.36 | 6 |
| 120,000.00 – 129,999.99 | 373,871 | 0.73 | 3 |
| 130,000.00 – 139,999.99 | 414,998 | 0.81 | 3 |
| 140,000.00 – 149,999.99 | 584,720 | 1.15 | 4 |
| 150,000.00 or greater | 890,355 | 1.75 | 5 |
| Total | $ 50,920,797 | 100.00 | 3,215 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 193,969 | 0.38 | 19 |
| Alaska | 108,539 | 0.21 | 6 |
| Arizona | 1,042,235 | 2.05 | 63 |
| Arkansas | 122,470 | 0.24 | 15 |
| California | 9,727,057 | 19.10 | 462 |
| Colorado | 778,912 | 1.53 | 40 |
| Connecticut | 499,975 | 0.98 | 35 |
| Delaware | 216,227 | 0.42 | 77 |
| Florida | 2,297,131 | 4.51 | 135 |
| Georgia | 732,868 | 1.44 | 35 |
| Hawaii | 1,961 | 0.00 | 1 |
| Idaho | 40,902 | 0.08 | 6 |
| Illinois | 1,030,507 | 2.02 | 60 |
| Indiana | 220,495 | 0.43 | 25 |
| Iowa | 187,251 | 0.37 | 9 |
| Kansas | 418,763 | 0.82 | 37 |
| Kentucky | 348,107 | 0.68 | 27 |
| Louisiana | 369,582 | 0.73 | 25 |
| Maine | 83,391 | 0.16 | 6 |
| Maryland | 577,314 | 1.13 | 34 |
| Massachusetts | 481,885 | 0.95 | 40 |
| Michigan | 454,687 | 0.89 | 41 |
| Minnesota | 466,728 | 0.92 | 41 |
| Mississippi | 231,002 | 0.45 | 21 |
| Missouri | 650,049 | 1.28 | 45 |
| Montana | 31,071 | 0.06 | 8 |
| Nebraska | 52,572 | 0.10 | 9 |
| Nevada | 359,037 | 0.71 | 24 |
| New Hampshire | 41,636 | 0.08 | 6 |
| New Jersey | 2,414,523 | 4.74 | 106 |
| New Mexico | 535,153 | 1.05 | 18 |
| New York | 4,040,382 | 7.93 | 203 |
| North Carolina | 1,084,407 | 2.13 | 61 |
| North Dakota | 1,900 | 0.00 | 2 |
| Ohio | 1,607,985 | 3.16 | 147 |
| Oklahoma | 278,565 | 0.55 | 21 |
| Oregon | 308,023 | 0.60 | 16 |
| Pennsylvania | 5,022,242 | 9.86 | 470 |
| Rhode Island | 15,702 | 0.03 | 4 |
| South Carolina | 455,405 | 0.89 | 33 |
| South Dakota | 24,038 | 0.05 | 2 |
| Tennessee | 689,182 | 1.35 | 30 |
| Texas | 6,651,423 | 13.06 | 430 |
| Utah | 445,595 | 0.88 | 12 |
| Vermont | 14,756 | 0.03 | 2 |
| Virginia | 1,235,366 | 2.43 | 60 |
| Washington | 588,136 | 1.16 | 40 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 17,336 | 0.03 | 2 |
| Wisconsin | 1,352,264 | 2.66 | 115 |
| Wyoming | 16,889 | 0.03 | 3 |
| Other | 2,355,203 | 4.63 | 86 |
| Total | $ 50,920,797 | 100.00 | 3,215 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 20.2 | 6.0 | - | - | 120.0 |
| Grace | - | 2.4 | - | - | 120.0 |
| Deferment | - | - | 9.1 | - | 266.4 |
| Forbearance | - | - | - | 2.9 | 290.3 |
| Repayment | - | - | - | - | 244.9 |
| Claims | - | - | - | - | 187.6 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.04%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.63%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the THEA 2004 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the THEA 2004 Indenture to liabilities represented by the principal amount of outstanding securities issued under the THEA 2004 Indenture was equal to 99.17%. As of July 31, 2008, the ratio of assets in the trust estate under the THEA 2004 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the THEA 2004 Indenture was equal to 134.77%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 12:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## INDENTURE OF TRUST DATED AS OF APRIL 1, 2003, BETWEEN BRAZOS STUDENT FINANCE CORPORATION AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision**

### Indenture

Brazos Student Finance Corporation ("BSFC") has issued securities pursuant to an Indenture of Trust, dated as of April 1, 2003, by and between BSFC and U.S. Bank National Association, as trustee (together with all exhibits, schedules and appendices thereto, the "BSFC 2003-1 Indenture"). BSFC is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BSFC 2003-1 Indenture

As of July 31, 2008, the following senior securities were outstanding under the BSFC 2003-1 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PCJ7 | Series 2003 A-2 | $ 10,400,000 | July 1, 2038 | Taxable Auction Rate | 28 days |
| 10623PCK4 | Series 2003 A-3 | 75,000,000 | July 1, 2038 | Taxable Auction Rate | 28 days |
| 10623PCM0 | Series 2003 A-4 | 64,000,000 | July 1, 2038 | Taxable Auction Rate | 28 days |
| Total | | $149,400,000 | | | |

### Outstanding Subordinate Securities Under BSFC 2003-1 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the BSFC 2003-1 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PCL2 | Series 2003 B-1 | $30,000,000 | July 1, 2038 | Taxable Auction Rate | 28 days |

### Senior Note Total Consideration

The Senior Note Total Consideration for the securities listed in the table above under the caption "Outstanding Senior Securities Under the BSFC 2003-1 Indenture" is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the BSFC 2003-1 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BSFC 2003-1 Indenture. Holders of such securities should contact their broker-dealer to determine the current interest rate applicable to their outstanding auction rate securities. In addition, holders of such securities should contact the trustee under the BSFC 2003-1 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their outstanding auction rate securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the BSFC 2003-1 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the BSFC 2003-1 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the BSFC 2003-1 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BSFC 2003-1 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BSFC 2003-1 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by BSFC. BSFC has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendment**

Under the terms of the BSFC 2003-1 Indenture, holders of not less than 60% of the aggregate principal a mount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the BSFC 2003-1 Indenture.

**Other Obligations**

There are no other obligations secured under the BSFC 2003-1 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BSFC 2003-1 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BSFC 2003-1 Indenture, including a collection account, a principal distribution account, an interest account and a reserve account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BSFC 2003-1 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 217,707 |
| Principal Distribution Account | 1,489,954 |
| Interest Account | 553,116 |
| Operating Account* | 14,420 |
| Reserve Account | 1,794,000 |
| Total | $4,069,197 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the BSFC 2003-1 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BSFC 2003-1 Indenture.

Expenses. Under the BSFC 2003-1 Indenture, BSFC incurred $3,106,519 in cash and non-cash expenses during the three-month period ended July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BSFC 2003-1 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BSFC 2003-1 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $175,001,153 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 0.25% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments. Some borrowers may be eligible for a reduction of the principal amount of the loan by 1.0% upon entering repayment or after the timely receipt of 12, 24, 36, or 48 payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BSFC 2003-1 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $175,001,153 |
| Number of Borrowers (1) | 6,928 |
| Average Outstanding Principal Balance Per Borrower | $ 25,260 |
| Number of Loans | 12,651 |
| Average Outstanding Principal Balance Per Loan | $ 13,833 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 228 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.37% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BSFC determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BSFC determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.00 - 2.99 | $ 8,598,412 | 4.91 | 588 |
| 3.00 - 3.49 | 6,637,239 | 3.79 | 361 |
| 3.50 - 3.99 | 28,119,426 | 16.07 | 2,250 |
| 4.00 - 4.49 | 45,991,343 | 26.28 | 4,499 |
| 4.50 - 4.99 | 60,424,233 | 34.53 | 3,819 |
| 5.00 - 5.49 | 13,313,122 | 7.61 | 658 |
| 5.50 - 5.99 | 2,373,738 | 1.36 | 84 |
| 6.00 - 6.49 | 2,195,466 | 1.25 | 79 |
| 6.50 - 6.99 | 4,311,398 | 2.46 | 179 |
| 7.00 - 7.49 | 1,103,261 | 0.63 | 55 |
| 7.50 - 7.99 | 1,127,785 | 0.64 | 57 |
| 8.00 or greater | 805,730 | 0.46 | 22 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

(1) BSFC determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 136,601,991 | 78.06 | 7,824 |
| HEAL | 2,311,388 | 1.32 | 55 |
| Other | 30,816,798 | 17.61 | 2,071 |
| PLUS/SLS | 3,780 | 0.00 | 1 |
| Stafford | 5,267,196 | 3.01 | 2,700 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 – 24 | $ 1,072,039 | 0.61 | 127 |
| 25 – 36 | 1,070,748 | 0.61 | 91 |
| 37 – 48 | 311,332 | 0.18 | 68 |
| 49 – 60 | 2,772,615 | 1.58 | 972 |
| 61 – 72 | 2,004,481 | 1.15 | 781 |
| 73 – 84 | 2,641,429 | 1.51 | 754 |
| 85 – 96 | 1,836,366 | 1.05 | 502 |
| 97 – 108 | 2,360,591 | 1.35 | 538 |
| 109 – 120 | 12,939,405 | 7.39 | 1,647 |
| 121 – 132 | 4,069,598 | 2.33 | 523 |
| 133 – 144 | 2,049,979 | 1.17 | 237 |
| 145 – 156 | 1,447,372 | 0.83 | 164 |
| 157 – 168 | 2,386,218 | 1.36 | 211 |
| 169 – 180 | 17,463,445 | 9.98 | 1,458 |
| 181 – 192 | 7,921,962 | 4.53 | 575 |
| 193 – 220 | 12,907,775 | 7.38 | 842 |
| 221 – 260 | 40,789,361 | 23.31 | 1,863 |
| 261 – 300 | 18,618,353 | 10.64 | 584 |
| 301 – 340 | 17,247,468 | 9.86 | 343 |
| 341 or greater | 23,090,617 | 13.19 | 371 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

(1) BSFC determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Claims* | $ 288,828 | 0.17 | 29 |
| Deferment | 22,775,972 | 13.01 | 1,469 |
| Forbearance | 13,744,478 | 7.85 | 671 |
| Grace | 2,614,052 | 1.49 | 130 |
| Repayment | 134,018,883 | 76.58 | 10,271 |
| School | 1,558,939 | 0.89 | 81 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 – 30 | $ | 165,291,527 | 94.45 | 11,952 |
| 31 – 60 | | 3,807,880 | 2.18 | 301 |
| 61 – 90 | | 1,593,712 | 0.91 | 85 |
| 91 – 120 | | 1,679,081 | 0.96 | 115 |
| 121 – 150 | | 689,345 | 0.39 | 53 |
| 151 – 180 | | 378,387 | 0.22 | 23 |
| 181 or greater* | | 1,561,220 | 0.89 | 122 |
| Total | $ | 175,001,153 | 100.00 | 12,651 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 6,569 | 0.00 | 2 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 5,701,941 | 3.26 | 1,235 |
| Jan. 1, 2000 - June 30, 2006 | | 169,292,643 | 96.74 | 11,414 |
| Total | $ | 175,001,153 | 100.00 | 12,651 |

**Distribution of the Student Loans by Guarantee Agency as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 3,024,984 | 1.73 | 95 |
| Great Lakes Higher Education Guaranty Corporation | | 33,016,476 | 18.87 | 4,917 |
| Pennsylvania Higher Education Assistance Agency | | 76,098,582 | 43.48 | 4,314 |
| Texas Guaranteed Student Loan Corporation | | 5,000,386 | 2.86 | 314 |
| United Student Aid Funds | | 24,668,194 | 14.10 | 881 |
| Others | | 33,192,531 | 18.97 | 2,130 |
| Total | $ | 175,001,153 | 100.00 | 12,651 |

**Distribution of the Student Loans by Subservicer as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 23,742,029 | 13.57 | 1,382 |
| Chase Student Loan Servicing, LLC | | 29,043,970 | 16.60 | 2,251 |
| Great Lakes Educational Loan Services, Inc | | 34,719,953 | 19.84 | 4,240 |
| Pennsylvania Higher Education Assistance Agency | | 62,827,007 | 35.90 | 3,897 |
| Sallie Mae Servicing | | 24,668,194 | 14.10 | 881 |
| Total | $ | 175,001,153 | 100.00 | 12,651 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Subsidized | $ 66,381,785 | 37.93 | 5,537 |
| Unsubsidized | 108,619,367 | 62.07 | 7,114 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 – 499.99 | $ 112,783 | 0.06 | 429 |
| 500.00 – 999.99 | 398,173 | 0.23 | 523 |
| 1,000.00 – 1,999.99 | 1,987,042 | 1.14 | 1,327 |
| 2,000.00 – 2,999.99 | 2,483,531 | 1.42 | 998 |
| 3,000.00 – 3,999.99 | 2,454,765 | 1.40 | 704 |
| 4,000.00 – 4,999.99 | 2,820,360 | 1.61 | 629 |
| 5,000.00 – 5,999.99 | 2,930,955 | 1.67 | 535 |
| 6,000.00 – 6,999.99 | 3,066,491 | 1.75 | 471 |
| 7,000.00 – 7,999.99 | 3,344,811 | 1.91 | 446 |
| 8,000.00 – 8,999.99 | 4,144,320 | 2.37 | 487 |
| 9,000.00 – 9,999.99 | 4,049,056 | 2.31 | 426 |
| 10,000.00 – 14,999.99 | 21,689,933 | 12.39 | 1,755 |
| 15,000.00 – 19,999.99 | 19,735,425 | 11.28 | 1,140 |
| 20,000.00 – 24,999.99 | 17,574,059 | 10.04 | 785 |
| 25,000.00 – 29,999.99 | 14,082,802 | 8.05 | 512 |
| 30,000.00 – 34,999.99 | 12,469,341 | 7.13 | 387 |
| 35,000.00 – 39,999.99 | 10,093,329 | 5.77 | 269 |
| 40,000.00 – 44,999.99 | 10,935,811 | 6.25 | 261 |
| 45,000.00 – 49,999.99 | 5,770,854 | 3.30 | 122 |
| 50,000.00 – 54,999.99 | 3,919,506 | 2.24 | 75 |
| 55,000.00 – 59,999.99 | 3,721,873 | 2.13 | 65 |
| 60,000.00 – 64,999.99 | 3,319,288 | 1.90 | 53 |
| 65,000.00 – 69,999.99 | 2,493,678 | 1.42 | 37 |
| 70,000.00 – 74,999.99 | 3,113,234 | 1.78 | 43 |
| 75,000.00 – 79,999.99 | 2,086,639 | 1.19 | 27 |
| 80,000.00 – 84,999.99 | 1,562,001 | 0.89 | 19 |
| 85,000.00 – 89,999.99 | 2,111,543 | 1.21 | 24 |
| 90,000.00 – 94,999.99 | 836,034 | 0.48 | 9 |
| 95,000.00 – 99,999.99 | 973,267 | 0.56 | 10 |
| 100,000.00 – 109,999.99 | 2,634,955 | 1.51 | 25 |
| 110,000.00 – 119,999.99 | 1,962,008 | 1.12 | 17 |
| 120,000.00 – 129,999.99 | 1,623,602 | 0.93 | 13 |
| 130,000.00 – 139,999.99 | 1,066,968 | 0.61 | 8 |
| 140,000.00 – 149,999.99 | 578,428 | 0.33 | 4 |
| 150,000.00 or greater | 2,854,286 | 1.63 | 16 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 1,240,317 | 0.71 | 77 |
| Alaska | 231,523 | 0.13 | 21 |
| Arizona | 3,721,095 | 2.13 | 223 |
| Arkansas | 447,945 | 0.26 | 30 |
| California | 30,650,094 | 17.51 | 1,608 |
| Colorado | 1,811,012 | 1.03 | 106 |
| Connecticut | 2,508,972 | 1.43 | 176 |
| Delaware | 766,688 | 0.44 | 48 |
| Florida | 8,433,952 | 4.82 | 475 |
| Georgia | 4,895,040 | 2.80 | 221 |
| Hawaii | 465,820 | 0.27 | 26 |
| Idaho | 966,053 | 0.55 | 55 |
| Illinois | 4,664,206 | 2.67 | 327 |
| Indiana | 1,453,147 | 0.83 | 90 |
| Iowa | 905,294 | 0.52 | 73 |
| Kansas | 1,252,177 | 0.72 | 80 |
| Kentucky | 1,724,470 | 0.99 | 126 |
| Louisiana | 1,597,383 | 0.91 | 92 |
| Maine | 748,693 | 0.43 | 59 |
| Maryland | 3,305,756 | 1.89 | 202 |
| Massachusetts | 4,677,963 | 2.67 | 371 |
| Michigan | 5,163,735 | 2.95 | 304 |
| Minnesota | 2,540,619 | 1.45 | 234 |
| Mississippi | 597,299 | 0.34 | 30 |
| Missouri | 1,955,369 | 1.12 | 106 |
| Montana | 123,905 | 0.07 | 14 |
| Nebraska | 397,008 | 0.23 | 32 |
| Nevada | 1,034,112 | 0.59 | 72 |
| New Hampshire | 965,842 | 0.55 | 79 |
| New Jersey | 7,901,882 | 4.52 | 441 |
| New Mexico | 612,172 | 0.35 | 33 |
| New York | 18,314,131 | 10.47 | 1,085 |
| North Carolina | 2,701,579 | 1.54 | 200 |
| North Dakota | 103,369 | 0.06 | 8 |
| Ohio | 6,758,677 | 3.86 | 441 |
| Oklahoma | 899,009 | 0.51 | 60 |
| Oregon | 1,716,784 | 0.98 | 122 |
| Pennsylvania | 16,860,763 | 9.63 | 1,163 |
| Rhode Island | 746,985 | 0.43 | 66 |
| South Carolina | 1,105,735 | 0.63 | 76 |
| South Dakota | 440,631 | 0.25 | 29 |
| Tennessee | 1,851,189 | 1.06 | 87 |
| Texas | 3,113,868 | 1.78 | 177 |
| Utah | 542,692 | 0.31 | 36 |
| Vermont | 628,194 | 0.36 | 40 |
| Virginia | 4,716,409 | 2.70 | 292 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Washington | 3,705,083 | 2.12 | 206 |
| West Virginia | 709,923 | 0.41 | 34 |
| Wisconsin | 8,265,498 | 4.72 | 2,488 |
| Wyoming | 246,912 | 0.14 | 23 |
| Other | 3,814,180 | 2.18 | 187 |
| Total | $ 175,001,153 | 100.00 | 12,651 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 12.3 | 6.0 | - | - | 120.0 |
| Grace | - | 2.9 | - | - | 120.0 |
| Deferment | - | - | 8.3 | - | 248.4 |
| Forbearance | - | - | - | 3.2 | 268.6 |
| Repayment | - | - | - | - | 224.1 |
| Claims | - | - | - | - | 209.4 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 2.87%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.63%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BSFC 2003-1 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 2003-1 Indenture to liabilities represented by the principal amount of outstanding securities issued under the BSFC 2003-1 Indenture was equal to 100.13%. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 2003-1 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BSFC 2003-1 Indenture was equal to 120.24%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

# ANNEX 13:

## SUMMARY OF CERTAIN PROVISIONS RELATING TO:

## INDENTURE OF TRUST DATED AS OF APRIL 1, 1998, BETWEEN BRAZOS STUDENT FINANCE CORPORATION AND U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

**The following summary highlights only selected information about the outstanding securities issued under the Outstanding Indenture referred to in this Annex and may not contain all of the information that you may find important in making your investment decision.**

### Indenture

Brazos Student Finance Corporation ("BSFC") has issued securities pursuant to an Indenture of Trust, dated as of April 1, 1998, by and between BSFC and U.S. Bank National Association, as the successor trustee to Star Bank National Association (together with all supplements, exhibits, schedules and appendices thereto, the "BSFC 98 Indenture"). BSFC is a Texas non-profit corporation located in Waco, Texas.

### Outstanding Senior Securities Under BSFC 98 Indenture

As of July 31, 2008, the following senior securities were outstanding under the BSFC 98 Indenture:

| CUSIP | Series of Senior Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PBB5 | Series 1998 A-2 | $14,115,000 | June 1, 2023 | Taxable T-bill Floating Rate | N/A |
| 10623PBC3 | Series 1998 A-3 | 30,300,000 | June 1, 2023 | Taxable Auction Rate | 28 days |
| Total | | $44,415,000 | | | |

### Outstanding Subordinate Securities Under BSFC 98 Indenture

As of July 31, 2008, the following subordinate securities were outstanding under the BSFC 98 Indenture:

| CUSIP | Series of Subordinate Notes | Outstanding Principal Amount | Final Maturity | Interest Rate Basis | Auction Period |
|---|---|---|---|---|---|
| 10623PBD1 | Series 1998 B-1 | $50,000,000 | June 1, 2023 | Taxable LIBOR Floating Rate | N/A |
| 10623PBY5 | Series 2001 B-1 | 38,500,000 | July 1, 2036 | Taxable Auction Rate | 28 days |
| Total | | $88,500,000 | | | |

### Senior Note Total Consideration

The Senior Note Total Consideration for the Series 1998 A-3 notes (the Series 1998 A-2 notes are not subject to the Concurrent Offer) is $940 per $1,000 principal amount tendered.

### Interest Rates

The interest rate for each series of auction rate securities issued under the BSFC 98 Indenture is determined periodically on each auction date for such series by the applicable auction agent pursuant to auction procedures for such series set forth in the BSFC 98 Indenture. Holders of these securities should contact their broker-dealer to determine current interest rate applicable to their outstanding auction rate securities.

The Series 1998 A-2 notes issued under the BSFC 98 Indenture are T-bill based floating rate notes. The interest rate for the Series 1998 A-2 notes is determined each interest period by the calculation agent by calculating a

rate equal to the bond equivalent yield for auctions of the 91 day United States Treasury bills plus 0.96%. Holders of these securities should contact their broker-dealer to determine current interest rate applicable to their outstanding T-bill based floating rate notes.

The Series 1998 B-1 notes issued under the BSFC 98 Indenture are LIBOR based floating rate notes. The interest rate for the Series 1998 B-1 notes is determined each interest period by the calculation agent by calculating a rate equal to the one month LIBOR floating rate plus 0.43%. Holders of these securities should contact their broker-dealer to determine current interest rate applicable to their outstanding LIBOR based floating rate notes.

In addition, holders of all such securities should contact the trustee under the BSFC 98 Indenture to determine the amount of accrued unpaid interest carryover, if any, applicable to their securities.

**Redemption of the Securities**

The outstanding auction rate securities issued under the BSFC 98 Indenture are subject to optional redemption, upon 15 days prior notice, in whole or in part on the first business day immediately after the auction date related to such series at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the BSFC 98 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

The Series 1998 A-2 notes are subject to optional redemption after June 1, 2008, upon 15 days prior notice, in whole or in part at the option of the Corporation, only on the first business day of March, June, September and December at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the BSFC 98 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

The Series 1998 B-1 notes are subject to optional redemption after June 1, 2008, upon 15 days prior notice, in whole or in part at the option of the Corporation, only on the first business day of March, June, September and December at a redemption price of par plus accrued but unpaid interest without premium, provided, however, that no such securities, which have accrued but unpaid interest carryover (as calculated under the BSFC 98 Indenture) may be optionally redeemed unless such interest carryover is paid prior to or concurrently with such redemption.

Pursuant to the terms of the BSFC 98 Indenture, the outstanding auction rate securities are subject to mandatory redemption from excess cash flows at a redemption price of par plus accrued but unpaid interest without premium. Under the terms of the BSFC 98 Indenture, any interest carryover (and interest accrued thereon) not paid on the date the outstanding auction rate securities are redeemed pursuant to mandatory redemption will, unless there are assets remaining in the trust estate allocable to such securities, be cancelled and will not be paid on any subsequent date. Under the terms of the BSFC 98 Indenture, mandatory redemptions from excess cash flows within a particular class are generally made in ascending order of series designation or as otherwise directed by BSFC. BSFC has not previously directed another order with respect to mandatory redemptions and mandatory redemptions are currently made in ascending order of series designation.

**Proposed Amendments**

Under the terms of the BSFC 98 Indenture, holders of not less than 60% of the aggregate principal amount of the most senior class of notes outstanding thereunder are required to consent to the supplemental indenture to the BSFC 98 Indenture.

**Other Obligations**

There are no other obligations secured under the BSFC 98 Indenture.

**Underlying Assets**

A trust estate has been created pursuant to the BSFC 98 Indenture to secure the outstanding securities issued thereunder. The assets of the trust estate include:

- student loans;
- collections, proceeds and other payments on the student loans; and
- funds held in trust accounts under the BSFC 98 Indenture, including a collection account, a principal distribution account, an interest account, a reserve account and an excess surplus account.

Account Balances. The following table sets forth the account balances for each of the pledged funds held under the BSFC 98 Indenture, as of July 31, 2008:

| Account | Account Balance |
|---|---|
| Collection Account | $ 315,462 |
| Principal Distribution Account | 2,533,416 |
| Interest Account | 1,214,948 |
| Operating Account* | 10,953 |
| Reserve Account | 2,658,300 |
| Excess Surplus Account | 2,854,859 |
| Total** | $9,587,939 |

* The Operating Account is not part of the pledged funds and is not held for the benefit of the holders of the securities issued under the BSFC 98 Indenture. Amounts in the Operating Account are used to pay maintenance and operating expenses under BSFC 98 Indenture.

** The dollar amount set forth under "Total" in the table above may not total 100% of the account balances set forth in the table above due to rounding.

Expenses. Under the BSFC 98 Indenture, BSFC incurred $1,667,948 in cash and non-cash expenses during the three-month period ending on July 31, 2008.

Composition of Student Loans held in the Trust Estate under the BSFC 98 Indenture as of the Statistical Cut-Off Date. The following tables provide a description of certain characteristics of the student loans held in the trust estate under the BSFC 98 Indenture as of July 31, 2008 (the "Statistical Cut-Off Date"). The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $130,629,856 as of the Statistical Cut-Off Date.

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

Certain of the student loans held in the trust estate as of the Statistical Cut-Off Date are eligible for certain incentive programs. In general, under those incentive programs, the interest rate on a student loan may be reduced by up to 2.0% per annum upon entering repayment status or after timely receipt (i.e., not more than 15 days delinquent) of the initial 12, 24, 30, 36 or 48 payments from the borrower. In addition, some borrowers who authorize automatic payments of their student loan from a checking or savings account may receive an interest rate reduction of up to 0.25% per annum. Such interest rate reductions are effective for as a long as borrowers continue to make timely payments.

The following tables also contain information concerning the total number of loans and the total number of borrowers in the portfolio of student loans held in the trust estate under the BSFC 98 Indenture.

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

**Composition of the Student Loan Portfolio as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $130,629,856 |
| Number of Borrowers (1) | 9,360 |
| Average Outstanding Principal Balance Per Borrower | $ 13,956 |
| Number of Loans | 14,322 |
| Average Outstanding Principal Balance Per Loan | $ 9,121 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 177 |
| Weighted Average Annual Borrower Interest Rate (3) | 5.24% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) BSFC determined the weighted average remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) BSFC determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.63 - 2.99 | $ 177,298 | 0.14 | 7 |
| 3.00 - 3.49 | 993,279 | 0.76 | 38 |
| 3.50 - 3.99 | 7,975,306 | 6.11 | 290 |
| 4.00 - 4.49 | 16,577,037 | 12.69 | 2,090 |
| 4.50 - 4.99 | 60,223,146 | 46.10 | 6,948 |
| 5.00 - 5.49 | 15,533,717 | 11.89 | 2,875 |
| 5.50 - 5.99 | 2,502,117 | 1.92 | 339 |
| 6.00 - 6.49 | 564,243 | 0.43 | 28 |
| 6.50 - 6.99 | 4,185,953 | 3.20 | 213 |
| 7.00 - 7.49 | 3,669,425 | 2.81 | 322 |
| 7.50 - 7.99 | 10,062,677 | 7.70 | 524 |
| 8.00 - 8.49 | 7,550,333 | 5.78 | 595 |
| 8.50 or greater | 615,325 | 0.47 | 53 |
| Total | $ 130,629,856 | 100.00 | 14,322 |

(1) BSFC determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Consolidation | $ 22,904,461 | 17.53 | 1,502 |
| HEAL | 8,552,314 | 6.55 | 221 |
| Other | 88,366,136 | 67.65 | 9,257 |
| PLUS/SLS | 112,333 | 0.09 | 35 |
| Stafford | 10,694,611 | 8.19 | 3,307 |
| Total | $ 130,629,856 | 100.00 | 14,322 |

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

| Breakdown by Remaining Term (Months)(1) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0 - 24 | $ 5,191,367 | 3.97 | 2,393 |
| 25 - 36 | 1,762,716 | 1.35 | 511 |
| 37 - 48 | 1,536,295 | 1.18 | 417 |
| 49 - 60 | 2,896,316 | 2.22 | 523 |
| 61 - 72 | 3,170,862 | 2.43 | 601 |
| 73 - 84 | 4,815,819 | 3.69 | 765 |
| 85 - 96 | 4,476,518 | 3.43 | 673 |
| 97 - 108 | 4,142,118 | 3.17 | 655 |
| 109 - 120 | 13,734,950 | 10.51 | 1,851 |
| 121 - 132 | 5,042,195 | 3.86 | 599 |
| 133 - 144 | 4,939,171 | 3.78 | 708 |
| 145 - 156 | 3,274,619 | 2.51 | 370 |
| 157 - 168 | 4,300,178 | 3.29 | 397 |
| 169 - 180 | 8,750,617 | 6.70 | 659 |
| 181 - 192 | 7,735,623 | 5.92 | 554 |
| 193 - 220 | 14,479,120 | 11.08 | 926 |
| 221 - 260 | 22,944,776 | 17.56 | 1,325 |
| 261 - 300 | 3,548,953 | 2.72 | 151 |
| 301 - 340 | 536,513 | 0.41 | 15 |
| 341 or greater | 13,351,129 | 10.22 | 229 |
| Total | $ 130,629,856 | 100.00 | 14,322 |

(1) BSFC determined the remaining term to maturity shown in the table above from the Statistical Cut-Off Date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Claims* | $ | 1,734,076 | 1.33 | 122 |
| Deferment | | 8,368,303 | 6.41 | 832 |
| Forbearance | | 5,850,028 | 4.48 | 451 |
| Grace | | 427,768 | 0.33 | 20 |
| Repayment | | 114,078,524 | 87.33 | 12,884 |
| School | | 171,157 | 0.13 | 13 |
| Total | $ | 130,629,856 | 100.00 | 14,322 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by the Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 30 | $ | 121,009,482 | 92.64 | 13,368 |
| 31 - 60 | | 2,789,376 | 2.14 | 314 |
| 61 - 90 | | 1,648,994 | 1.26 | 198 |
| 91 - 120 | | 622,887 | 0.48 | 68 |
| 121 - 150 | | 527,425 | 0.40 | 50 |
| 151 - 180 | | 638,236 | 0.49 | 62 |
| 181 or greater* | | 3,393,455 | 2.60 | 262 |
| Total | $ | 130,629,856 | 100.00 | 14,322 |

*Ineligible Underlying Assets.

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Date | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 680,704 | 0.52 | 246 |
| Oct. 1, 1993 - Dec. 31, 1999 | | 83,909,622 | 64.23 | 10,373 |
| Jan. 1, 2000 - June 30, 2006 | | 46,039,529 | 35.24 | 3,703 |
| Total | $ | 130,629,856 | 100.00 | 14,322 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 4,095 | 0.00 | 1 |
| Great Lakes Higher Education Guaranty Corporation | | 186,943 | 0.14 | 142 |
| Kentucky Higher Education Assistance Authority | | 1,500 | 0.00 | 1 |
| Pennsylvania Higher Education Assistance Agency | | 8,070,986 | 6.18 | 2,455 |
| Texas Guaranteed Student Loan Corporation | | 354,120 | 0.27 | 142 |
| United Student Aid Funds | | 24,486,198 | 18.74 | 1,925 |
| Others | | 97,526,013 | 74.66 | 9,656 |
| Total | $ | 130,629,856 | 100.00 | 14,322 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 22,316,646 | 17.08 | 3,596 |
| Chase Student Loan Servicing, LLC | | 422,784 | 0.32 | 229 |
| Great Lakes Educational Loan Services, Inc | | 186,943 | 0.14 | 142 |
| Pennsylvania Higher Education Assistance Agency | | 60,907,364 | 46.63 | 6,363 |
| Sallie Mae Servicing | | 46,796,119 | 35.82 | 3,992 |
| Total | $ | 130,629,856 | 100.00 | 14,322 |

**Distribution of the Student Loans by Subsidy**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 16,119,999 | 12.34 | 2,944 |
| Unsubsidized | | 114,509,857 | 87.66 | 11,378 |
| Total | $ | 130,629,856 | 100.00 | 14,322 |

**Distribution of the Student Loans by Current Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 264,869 | 0.20 | 1,120 |
| 500.00 - 999.99 | 621,910 | 0.48 | 851 |
| 1,000.00 - 1,999.99 | 2,086,053 | 1.60 | 1,407 |
| 2,000.00 - 2,999.99 | 2,955,069 | 2.26 | 1,190 |
| 3,000.00 - 3,999.99 | 3,548,877 | 2.72 | 1,016 |
| 4,000.00 - 4,999.99 | 4,208,182 | 3.22 | 935 |
| 5,000.00 - 5,999.99 | 4,688,228 | 3.59 | 854 |
| 6,000.00 - 6,999.99 | 4,996,036 | 3.82 | 769 |
| 7,000.00 - 7,999.99 | 4,918,123 | 3.76 | 658 |
| 8,000.00 - 8,999.99 | 5,207,073 | 3.99 | 613 |
| 9,000.00 - 9,999.99 | 5,404,355 | 4.14 | 569 |
| 10,000.00 - 14,999.99 | 24,470,336 | 18.73 | 2,006 |
| 15,000.00 - 19,999.99 | 15,235,806 | 11.66 | 888 |
| 20,000.00 - 24,999.99 | 12,676,719 | 9.70 | 570 |
| 25,000.00 - 29,999.99 | 7,353,097 | 5.63 | 270 |
| 30,000.00 - 34,999.99 | 4,156,220 | 3.18 | 128 |
| 35,000.00 - 39,999.99 | 4,493,331 | 3.44 | 121 |
| 40,000.00 - 44,999.99 | 3,018,430 | 2.31 | 71 |
| 45,000.00 - 49,999.99 | 2,290,446 | 1.75 | 48 |
| 50,000.00 - 54,999.99 | 2,049,587 | 1.57 | 39 |
| 55,000.00 - 59,999.99 | 1,487,523 | 1.14 | 26 |
| 60,000.00 - 64,999.99 | 2,399,116 | 1.84 | 38 |
| 65,000.00 - 69,999.99 | 1,200,597 | 0.92 | 18 |
| 70,000.00 - 74,999.99 | 1,153,640 | 0.88 | 16 |
| 75,000.00 - 79,999.99 | 1,720,570 | 1.32 | 22 |
| 80,000.00 - 84,999.99 | 1,146,438 | 0.88 | 14 |
| 85,000.00 - 89,999.99 | 1,050,154 | 0.80 | 12 |
| 90,000.00 - 94,999.99 | 927,514 | 0.71 | 10 |
| 95,000.00 - 99,999.99 | 873,054 | 0.67 | 9 |
| 100,000.00 - 109,999.99 | 1,469,801 | 1.13 | 14 |
| 110,000.00 - 119,999.99 | 917,477 | 0.70 | 8 |
| 120,000.00 - 129,999.99 | 616,227 | 0.47 | 5 |
| 130,000.00 - 139,999.99 | 408,766 | 0.31 | 3 |
| 140,000.00 - 149,999.99 | 147,847 | 0.11 | 1 |
| 150,000.00 or greater | 468,386 | 0.36 | 3 |
| Total | $ 130,629,856 | 100.00 | 14,322 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 894,185 | 0.68 | 79 |
| Alaska | 112,558 | 0.09 | 17 |
| Arizona | 2,954,680 | 2.26 | 225 |
| Arkansas | 375,090 | 0.29 | 39 |
| California | 17,292,063 | 13.24 | 1,495 |
| Colorado | 1,692,270 | 1.30 | 150 |
| Connecticut | 2,400,726 | 1.84 | 232 |
| Delaware | 501,264 | 0.38 | 62 |
| Florida | 8,203,923 | 6.28 | 647 |
| Georgia | 4,302,268 | 3.29 | 329 |
| Hawaii | 295,345 | 0.23 | 46 |
| Idaho | 551,822 | 0.42 | 32 |
| Illinois | 3,217,638 | 2.46 | 340 |
| Indiana | 1,782,611 | 1.36 | 284 |
| Iowa | 421,527 | 0.32 | 38 |
| Kansas | 774,495 | 0.59 | 86 |
| Kentucky | 731,679 | 0.56 | 84 |
| Louisiana | 1,447,802 | 1.11 | 280 |
| Maine | 778,371 | 0.60 | 54 |
| Maryland | 2,782,071 | 2.13 | 313 |
| Massachusetts | 5,620,122 | 4.30 | 580 |
| Michigan | 3,151,383 | 2.41 | 239 |
| Minnesota | 991,758 | 0.76 | 86 |
| Mississippi | 177,878 | 0.14 | 30 |
| Missouri | 976,287 | 0.75 | 95 |
| Montana | 98,755 | 0.08 | 8 |
| Nebraska | 226,766 | 0.17 | 32 |
| Nevada | 1,328,948 | 1.02 | 120 |
| New Hampshire | 644,925 | 0.49 | 63 |
| New Jersey | 6,496,457 | 4.97 | 760 |
| New Mexico | 279,035 | 0.21 | 36 |
| New York | 14,619,248 | 11.19 | 1,357 |
| North Carolina | 2,031,258 | 1.55 | 274 |
| North Dakota | 44,634 | 0.03 | 4 |
| Ohio | 3,235,546 | 2.48 | 333 |
| Oklahoma | 770,882 | 0.59 | 77 |
| Oregon | 1,415,677 | 1.08 | 169 |
| Pennsylvania | 15,840,725 | 12.13 | 3,049 |
| Rhode Island | 556,999 | 0.43 | 60 |
| South Carolina | 1,442,691 | 1.10 | 120 |
| South Dakota | 193,601 | 0.15 | 18 |
| Tennessee | 1,221,196 | 0.93 | 134 |
| Texas | 4,113,084 | 3.15 | 452 |
| Utah | 533,663 | 0.41 | 47 |
| Vermont | 320,683 | 0.25 | 31 |
| Virginia | 2,655,758 | 2.03 | 285 |
| Washington | 1,910,262 | 1.46 | 214 |

**Geographic Distribution of the Student Loans as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| West Virginia | 623,731 | 0.48 | 77 |
| Wisconsin | 1,303,847 | 1.00 | 229 |
| Wyoming | 48,158 | 0.04 | 8 |
| Other | 6,243,515 | 4.78 | 503 |
| Total | $ 130,629,856 | 100.00 | 14,322 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| **Current Borrower Payment Status** | **School** | **Grace** | **Deferment** | **Forbearance** | **Repayment** |
| School | 9.0 | 6.0 | - | - | 120.0 |
| Grace | - | 7.1 | - | - | 120.0 |
| Deferment | - | - | 6.5 | - | 194.4 |
| Forbearance | - | - | - | 3.5 | 230.6 |
| Repayment | - | - | - | - | 172.4 |
| Claims | - | - | - | - | 207.9 |

As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.09%. As of the Statistical Cut-Off Date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.62%. However, these weighted average spreads may be lower as a result of payment reduction on certain of the student loans due to participation in borrower incentive programs as described above.

Parity Ratios under the BSFC 98 Indenture. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 98 Indenture to liabilities represented by the principal amount of outstanding securities issued under the BSFC 98 Indenture was equal to 105.93%. As of July 31, 2008, the ratio of assets in the trust estate under the BSFC 98 Indenture to liabilities represented by the principal amount of the outstanding senior securities issued under the BSFC 98 Indenture was equal to 317.01%. For purposes of these parity ratios, the student loans held in the trust estate were valued at an amount equal to 100% of the outstanding principal amount thereof.

**EXHBIT 1**

**Preliminary Offering Memorandum relating to the New Notes**

The information contained in this preliminary offering memorandum is not complete and may be changed. We may not sell these securities or accept offers to buy these securities prior to the time this preliminary offering memorandum is delivered in final form. This preliminary offering memorandum is not an offer to sell these securities, and we are not soliciting offers to buy these securities, in any jurisdiction where their offer or sale is not permitted.

**NEW ISSUE – Book Entry Only**

# $_____
# LEON HIGHER EDUCATION AUTHORITY, INC.

**STUDENT LOAN ASSET-BACKED NOTES**
**Series 2008-1**

Leon Higher Education Authority, Inc., a Texas non-profit corporation, is offering $_____ aggregate principal amount of its student loan asset-backed notes, Series 2008-1 as Class A notes, as Class B notes and as Class C notes in the series and principal amounts set forth below:

| Series | Original Principal Amount | Interest Rate | Final Maturity Date | Price to Public | Underwriters' Fee and Discount | Proceeds to the Issuer[1] |
|---|---|---|---|---|---|---|
| Series 2008A-1 Notes..... | $ _____ | 3-month LIBOR plus ____% | _____, 20__ | ___% | 0.25% | $_____ |
| Series 2008A-2 Notes..... | $ _____ | 3-month LIBOR plus ____% | _____, 20__ | ___% | 0.25% | $_____ |
| Series 2008A-3 Notes..... | $ _____ | 3-month LIBOR plus ____% | _____, 20__ | ___% | 0.25% | $_____ |
| Series 2008A-4 Notes..... | $ _____ | 3-month LIBOR plus ____% | _____, 20__ | ___% | 0.25% | $_____ |
| Series 2008A-5 Notes..... | $ _____ | 3-month LIBOR plus ____% | _____, 20__ | ___% | 0.25% | $_____ |
| Series 2008B-1 Notes..... | $ _____ | 3-month LIBOR plus 2.75% | September 26, 2039 | - | - | - |
| Series 2008C-1 Notes..... | $ _____ | 3-month LIBOR plus 3.00% | June 25, 2040 | - | - | - |
| Total ..... | $ _____ | | | | | $_____ |

[1] Before deducting expenses, estimated to be $_____. All of the Series 2008B-1 notes and the Series 2008C-1 notes are being offered directly by the issuer in a private exchange offer as described herein.

We will be issuing the notes pursuant to a discrete indenture of trust with U.S. Bank National Association, as indenture trustee and as eligible lender trustee, and the notes will be secured by a pool of student loans made under the Federal Family Education Loan Program and the Health Education Assistance Loan Program, rights we have under certain agreements with others, a cash reserve fund, a capitalized interest fund and the other moneys and investments pledged to the indenture trustee.

The notes are LIBOR-based notes. A description of how LIBOR is determined appears under *"DESCRIPTION OF THE NOTES—Determination of LIBOR"* in this offering memorandum. Interest and principal will be paid to the applicable Class A and Class B noteholders quarterly on the 25th of each March, June, September and December, beginning, _____, 2008. In general, we will pay principal sequentially to the series 2008A-1 notes, the series 2008A-2 notes, the series 2008A-3 notes, the series 2008A-4 notes, the series 2008A-5 notes and the series 2008B-1 notes, in that order, until each such series is paid in full. The Class C notes will receive payments of interest and principal on any distribution date to the extent that there are available funds remaining after all other required distributions have been made as described herein.

All of the Class A notes offered pursuant to this offering memorandum are expected to be rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's. The Class B notes offered pursuant to this offering memorandum are expected to be rated at least "Aa2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's. The Class C notes offered pursuant to this offering memorandum are expected to be rated at least "B3" by Moody's Investors Service, Inc., at least "B-" by Standard & Poor's or at least by "B-" Fitch Ratings.

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

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

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

**You should carefully consider the risk factors beginning on page 14 of this offering memorandum.**

The underwriters named below are offering the Class A notes subject to approval of certain legal matters by their counsel. The issuer is offering the Class B notes and the Class C notes subject to approval of certain legal matters by its counsel. The Class A notes will be delivered in book-entry form on or about _____, 2008, against payment in immediately available funds. The Class B notes and the Class C notes will be delivered in book-entry form on or about _____, 2008, in a private exchange offer as described herein.

**Citi**

**[_____]**

**[_____]**

The date of this offering memorandum is _____, 2008

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

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

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

Unless otherwise indicated, references in this offering memorandum to:

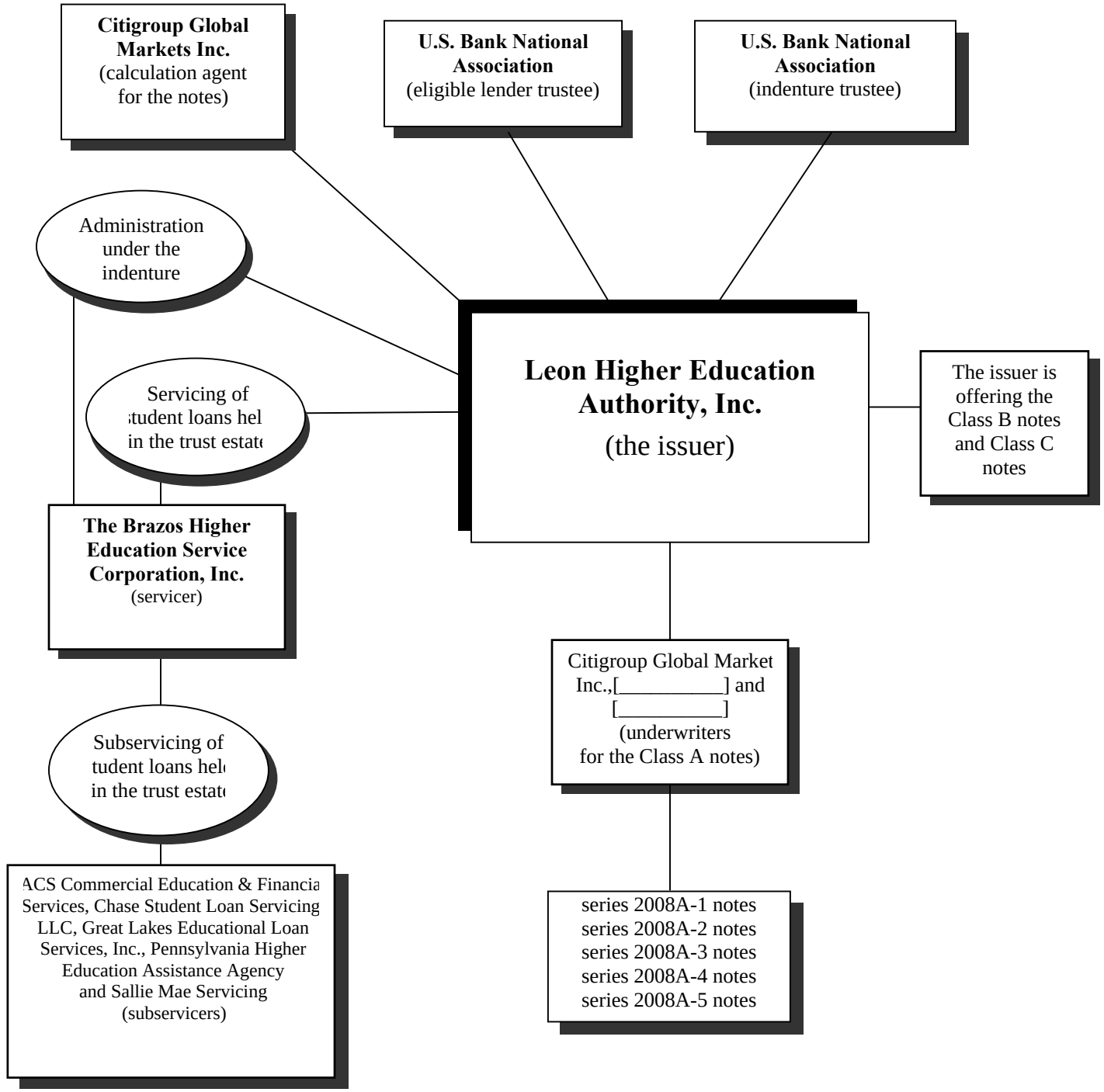
- "the notes" refer to all of the notes offered pursuant to this offering memorandum;
- "the Class A notes" refer collectively to the series 2008A-1 notes, the series 2008A-2 notes, the series 2008A-3 notes, the series 2008A-4 notes and the series 2008A-5 notes offered pursuant to this offering memorandum;
- "the Class B notes" refer to the series 2008B-1 notes offered pursuant to this offering memorandum;
- "the Class C notes" refer to the series 2008C-1 notes offered pursuant to this offering memorandum;
- "student loans" refer to loans made under the Federal Family Education Loan Program to students and parents of students and student loans made under the Health Education Assistance Loan Program for health education assistance loans;
- "FFELP loans" refer to loans made under the Federal Family Education Loan Program to students and parents of students;
- "HEAL loans" refer to loans made under the Health Education Assistance Loan Program for health education assistance loans;
- "we," "us," "our," and "the issuer" refer to Leon Higher Education Authority, Inc., the issuer of the notes;
- "indenture" refers to the Indenture of Trust dated as of _____, 2008 among the issuer, the indenture trustee and the eligible lender trustee, which authorized the issuance of the notes;
- "indenture trustee" and "eligible lender trustee" refer to U.S. Bank National Association;
- "master servicer" refers to The Brazos Higher Education Service Corporation, Inc., the master servicer of the student loans; and
- "underwriters" refer to Citigroup Global Markets Inc., [_____] and [_____], the underwriters for the Class A notes.

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

## NOTICE TO INVESTORS

The notes may not be offered or sold to persons in the United Kingdom in a transaction that results in an offer to the public within the meaning of the securities laws of the United Kingdom.

**SUMMARY OF PARTIES TO THE TRANSACTION***




* This chart provides only a simplified overview of the relations between the key parties to the transaction. Refer to this offering memorandum for a further description.

## SUMMARY

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

### General

The notes will be issued pursuant to a discrete indenture of trust and will be senior (Class A), subordinate (Class B) and junior-subordinate (Class C) notes having the rights described in this offering memorandum. The notes designated "series 2008A-1 notes", "series 2008A-2 notes", "series 2008A-3 notes", "series 2008A-4 notes" and "series 2008A-5 notes" in this offering memorandum are Class A notes. The Class A notes offered by this offering memorandum will be the only series of Class A notes issued pursuant to the indenture. The notes designated "series 2008B-1 notes" in this offering memorandum are Class B notes. The Class B notes offered by this offering memorandum will be the only series of Class B notes issued pursuant to the indenture. The notes designated "series 2008C-1 notes" in this offering memorandum are Class C notes. The Class C notes offered by this offering memorandum will be the only series of Class C notes issued pursuant to the indenture. No additional notes will be offered under the indenture.

We will use the proceeds from the sale of the notes to acquire a pool of student loans originated under the Federal Family Education Loan Program and the Health Education Assistance Loan Program, to make deposits to the reserve account and the capitalized interest account, and to pay costs of issuing the notes.

To acquire the student loans, we will enter into student loan purchase agreements with each of Brazos Higher Education Authority, Inc., a Texas non-profit corporation, Academic Finance Corporation, a Texas non-profit corporation, Federated Student Finance Corporation, a Texas non-profit corporation, and Educational Funding Services, Inc. (as successor to EFSI), a California non-profit public benefit corporation (collectively, the "Sellers"). The master servicer conducts and operates the business affairs of each Seller. Pursuant to separate indentures of trust, each Seller has previously issued student loan asset-backed auction rate securities (and other securities) that are secured by the student loans that we expect to acquire. Under the terms of the student loan purchase agreements, the Sellers will agree to sell to us all of their rights, title and interest in the eligible student loans securing their outstanding securities issued under the separate indentures. As consideration for this sale, we will use a portion of the proceeds from the sale of the Class A notes to purchase and cancel or otherwise cause the redemption of all of the outstanding obligations issued by the Sellers that are secured by the student loans under the separate indentures of trust. We are offering the Class B notes and the Class C notes described in this offering memorandum to the holders of certain of those outstanding obligations issued by the Sellers in a private exchange offer as part of the consideration we will pay to purchase those obligations. The lien created under each applicable separate indenture of trust will be terminated and released on the date of the sale.

All of the student loans we acquire will be pledged to the indenture trustee to secure repayment of the notes issued under the indenture.

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

### Principal Parties

- Issuer ..... Leon Higher Education Authority, Inc., a Texas non-profit corporation located in Waco, Texas.
- Master Servicer ..... The Brazos Higher Education Service Corporation, Inc., a Texas non-profit corporation located in Waco, Texas, will act as the master servicer of the student loans held in the trust estate.
- Subservicers ..... ACS Commercial Education & Financial Services (formerly ACS Education Services, Inc.), Chase Student Loan Servicing, LLC (formerly CFS-SunTech Servicing LLC), Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency and Sallie Mae Servicing each will act as a subservicer of the student loans held in the trust estate.

- Indenture Trustee ..... Under the indenture, U.S. Bank National Association will act as indenture trustee for the benefit of and to protect the interests of the noteholders and will act as paying agent for the notes.

- Eligible Lender Trustee..... U.S. Bank National Association, as eligible lender trustee, will hold legal title to the student loans held in the trust estate under an eligible lender trust agreement.

- Underwriters ..... Citigroup Global Markets Inc., [_____] and [_____] will be the underwriters for the Class A notes.

- Calculation Agent ..... Citigroup Global Markets Inc. will act as the calculation agent with respect to the notes.

- Guarantors..... The FFELP loans expected to be acquired with the proceeds of the notes will be guaranteed by one of the guarantors listed in this offering memorandum under "*REGARDING THE STUDENT LOANS—Description of Guarantee Agencies for the FFELP Loans*".

- HEAL Loan Insurance ..... The HEAL loans expected to be acquired with the proceeds of the notes will be insured by the federal government acting through the Secretary of Health and Human Services pursuant to the Health Education Assistance Loan Program under the Public Health Service Act. *See "DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM"* in this offering memorandum**.**

**The Offered Notes**

The issuer is offering the following series of notes:

***Class A Notes:***

- Series 2008A-1 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____;
- Series 2008A-2 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____;
- Series 2008A-3 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____;
- Series 2008A-4 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____; and
- Series 2008A-5 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____.

***Class B Notes:***

- Series 2008B-1 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____.

***Class C Notes:***

- Series 2008C-1 LIBOR Floating Rate Student Loan Asset-Backed Notes, in the amount of $_____.

**Dates**

***Closing Date***. The closing date for this offering is _____, 2008.

***Statistical Cut-off Date***. In this offering memorandum, we have presented information relating to the portfolio of student loans that we intend to acquire with a portion of the proceeds of the notes on the closing date. Information relating to this portfolio of student loans is as of the statistical cut-off date, which is the close of business on July 31, 2008. We believe that the information set forth in this offering memorandum with respect to those student loans as of the statistical cut-off date is representative of the characteristics of those student loans as they will exist at the date on which we acquire them, although certain characteristics of the student loans may vary. *See "CHARACTERISTICS OF THE STUDENT LOANS"* in this offering memorandum.

**The information set forth in this offering memorandum with respect to the portfolio of student loans that we intend to acquire is based upon the assumption that we acquire the eligible student loans that are pledged by the Sellers under specific separate indentures of trust previously established by the Sellers. The Sellers and certain other issuers of student loan asset-backed securities also have pledged separate portfolios of student loans under other indentures of trust that are not described in this offering memorandum that we may acquire. To the extent that we acquire the student loans that are pledged by the Sellers or other issuers under any of those other indentures of trust, we will circulate a supplement, amendment or new offering memorandum that will include updated information with respect to the portfolio of student loans that we will acquire.**

***Distribution Dates***. The distribution dates for the notes are the 25th of each March, June, September and December, beginning _____, 2008. If any March 25, June 25, September 25 or December 25 is not a business day, the distribution date will be the next business day.

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

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

***Record Date***. Interest and principal will be payable to holders of record as of the close of business on the record date, which is the day before the related distribution date.

**Information about the Notes**

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

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

An accrual period for the notes begins on a distribution date and ends on the day before the next distribution date. The first accrual period for the notes, however, will begin on the closing date and end on _____, 2008, the day before the first distribution date.

***Interest Rates.*** Except for the first accrual period, the notes will bear interest at the annual rates listed below:

- The series 2008A-1 note interest rate will be three-month LIBOR plus ____%;
- The series 2008A-2 note interest rate will be three-month LIBOR plus ____%;
- The series 2008A-3 note interest rate will be three-month LIBOR plus ____%;
- The series 2008A-4 note interest rate will be three-month LIBOR plus ____%;
- The series 2008A-5 note interest rate will be three-month LIBOR plus ____%;
- The series 2008B-1 note interest rate will be three-month LIBOR plus 2.75%; and
- The series 2008C-1 note interest rate will be three-month LIBOR plus 3.00%.

For the first accrual period, the rate on the notes will be determined by the calculation agent by reference to straight line interpolation between ____-month and _____-month LIBOR determined by the following formula:

$$x + [___/___ * (y-x)]$$

where: x = ____-month LIBOR, and

y = ____-month LIBOR.

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

We are offering the Class B notes and the Class C notes described in this offering memorandum in exchange for certain outstanding obligations issued by the Sellers. At the time holders tender such outstanding obligations in connection with the related exchange offer and at the time the right to withdraw such tenders expires, the rate at which interest will accrue on the Class A notes will not have been determined, and therefore such information will not be made available to such holders. The greater the interest rate on the Class A notes is, the smaller the amount of Available Funds there will be on each distribution date to pay interest and principal on the Class B notes and the Class C notes. *See "RISK FACTORS—Subordination of the Class C Notes and the Class B Notes and Sequential Payment of the Class A Notes May Result in a Greater Risk of Loss"* in this offering memorandum. Nonetheless, the transaction has been structured, taking into consideration the interest rate that will accrue on the Class A notes and the student loans that we intend to acquire under the indenture, to achieve a rating on the Class B notes of at least "Aa2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's and a rating on the Class C notes of at least "B3" by Moody's Investors Service, Inc., at least "B-" by Standard & Poor's or at least by "B-" Fitch Ratings. It is a condition to the sale of the Class B notes and the Class C notes that they receive such ratings, in addition to meeting the structural descriptions provided herein. *See "—Ratings," "—The Offered Notes"* and *"—Information About the Notes"* in this summary.

***Principal Payments.*** Principal will be payable on the Class A notes and the Class B notes on each distribution date in an amount equal to the Principal Distribution Amount for that distribution date.

The Principal Distribution Amount with respect to any distribution date is the greater of:

(1) the amount, if any, by which the aggregate principal amount of all of the Class A notes and the Class B notes immediately prior to such distribution date, exceeds the difference between:

- the Adjusted Pool Balance (which takes into account the Pool Balance, the amount on deposit in the capitalized interest account and, in certain circumstances, the Reserve Account Requirement) as of the last day of the related collection period, and
- the Specified Overcollateralization Amount for such distribution date; and

(2) the aggregate principal amount of each series of Class A notes and Class B notes with a maturity date on or prior to such distribution date.

Principal will be payable to the Class C notes on each distribution date only from Available Funds after all other required distributions have been made; provided, that the amount of such payment will not exceed the outstanding amount of the Class C notes. The entire unpaid principal amount of Class C Notes will be due and payable, if not previously paid, on the stated maturity date for the Class C notes.

***Priority of Principal Payments.*** On each distribution date prior to an event of default, the issuer will pay the Principal Distribution Amount from the funds available for that purpose, sequentially, to the series 2008A-1 notes, series 2008A-2 notes, series 2008A-3 notes, series 2008A-4 notes, series 2008A-5 notes and series 2008B-1 notes, in that order, until their respective outstanding principal amounts are reduced to zero. On each distribution date prior to an event of default, the issuer will pay, subject to all prior required distributions, principal on the Class C notes from any remaining funds available for that payment as described in this summary below under "*—Administration of the Trust Estate—Distributions"*.

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

***Maturity Dates.***

- The series 2008A-1 notes will mature no later than _____, 20__;
- the series 2008A-2 notes will mature no later than _____, 20__;
- the series 2008A-3 notes will mature no later than _____, 20__;
- the series 2008A-4 notes will mature no later than _____, 20__;
- the series 2008A-5 notes will mature no later than _____, 20__;
- the series 2008B-1 notes will mature no later than September 26, 2039; and
- the series 2008C-1 notes will mature no later than June 25, 2040.

***Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Notes.*** The projected weighted average life, expected maturity date and percentages of remaining principal amount of each series of Class A notes under various assumed prepayment scenarios will be included under "*Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes*" to be included as an exhibit to the term sheet to be distributed to potential investors prior to the pricing of this transaction.

Based on the assumptions described in this offering memorandum under "*PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE NOTES*", the projected weighted average life of the Class B notes is 13.50 years and the projected weighted average life of the Class C notes is 8 years.

In addition, the initial principal amount of the Class B notes is not expected to be greater than 5% of the initial principal amount of all of the notes, and the initial principal amount of the Class C notes is not expected to be greater than 10% of the initial principal amount of all of the notes.

***Subordination of the Class B Notes.*** On any distribution date, payments of interest on the Class B notes will be subordinate to the payment of interest on the Class A notes and, if a Class B Interest Subordination Condition is in effect, to the payment of principal on the Class A notes. No principal payments on the Class B notes will be made until the principal amount of each of the Class A notes is reduced to zero. *See "DESCRIPTION OF THE NOTES—The Class B Notes—Subordination of the Class B Notes"* in this offering memorandum.

***Subordination of the Class C Notes.*** On any distribution date, payments of interest and principal on the Class C notes will be subordinate to the payment of interest and required principal payments on the Class A notes and the Class B notes. For any distribution date, interest and principal payments on the Class C notes will only be made to the extent that there are Available Funds remaining after all prior required distributions as described in this summary below under "*—Administration of the Trust Estate—Distributions"*. Generally, no amounts will be paid to the Class C notes unless the Overcollateralization Amount with respect to that distribution date is at least equal to the Specified Overcollateralization Amount, the amount on deposit in the reserve account is equal to the Reserve Account Requirement and there are Available Funds remaining after all prior required distributions. *See "CREDIT ENHANCEMENT—Overcollateralization Amount"* in this offering memorandum. Also see "*RISK FACTORS—The Class C notes will not provide regular or predictable payments of interest and principal*" in this offering memorandum.

***Losses and Shortfalls.*** If and to the extent that any losses in collections on the student loans are not covered or offset by credit enhancement, those losses will not be allocated to write down the principal amount of any series of notes. Instead, the amount available to make payments on the notes will be reduced to the extent such losses result in shortfalls in the amount available to make distributions of interest and principal. Such shortfalls will be borne first by the holders of the Class C notes, then by the holders of the Class B notes and then by the holders of the Class A notes. To the extent that any shortfalls in cash flows result in losses that exceed the available credit enhancement, holders of the Class C notes will not receive their entire principal amount. To the extent that any shortfalls in cash flows result in losses that exceed the available credit enhancement for the Class B notes, holders of the Class B notes will not receive their entire principal amount. Since principal is allocated sequentially, any shortfalls allocated to the Class A notes will generally be borne by the holders of the Class A notes sequentially, in reverse order of payment priority. However, if an event of default should have occurred and be continuing, which has resulted in an acceleration of the notes, such shortfalls will be borne by the holders of the Class A notes on a pro rata basis. *See "DESCRIPTION OF THE NOTES—Allocations and Distributions—Distributions"* in this offering memorandum.

***Denominations.*** We will issue the Class A notes in minimum denominations of $100,000 (or if greater, the U.S. dollar equivalent of 50,000 euros) and in integral multiples of $1,000 in excess thereof. We will issue the Class B notes and the Class C

notes in minimum denominations of $1,000 and in integral multiples of $1 in excess thereof. The notes will be available only in book-entry form through The Depository Trust Company, Clearstream, Luxembourg and the Euroclear System. You will not receive a certificate representing your notes except in very limited circumstances.

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

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

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

- the student loans;
- collections and other payments on the student loans;
- funds held in trust accounts under the indenture, including an acquisition account, a collection account, a reserve account, a distribution account and a capitalized interest account; and
- any derivative product.

***Student Loans***. The student loans are education loans to students and parents of students made under the Federal Family Education Loan Program, known as FFELP, and health education assistance loans made under the Health Education Assistance Loan Program, know as HEAL.

The student loans had an aggregate outstanding principal balance due from borrowers, including accrued interest to be capitalized, of approximately $1,949,807,044 as of the statistical cut-off date. The Initial Pool Balance is expected to be approximately equal to that amount as of the closing date. The sum of the Initial Pool Balance, the initial deposit into the reserve account and the deposit into the capitalized interest account will be at least 100.01% of the aggregate principal balance of the Class A notes and the Class B notes.

As of the statistical cut-off date, the weighted average annual borrower interest rate of the student loans was approximately 4.62% and their weighted average remaining term to scheduled maturity was approximately 164 months. *See "CHARACTERISTICS OF THE STUDENT LOANS"* in this offering memorandum. The weighted average annual borrower interest rate of the student loans may be lower as a result of payment reduction on certain of our student loans due to participation in borrower incentive programs. *See "REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans"* in this offering memorandum.

Guarantee agencies described in this offering memorandum guarantee all of the FFELP loans. They are reinsured by the United States Department of Education. *See "REGARDING THE STUDENT LOANS—Description of Guarantee Agencies for the FFELP Loans."*

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

Special allowance payments on the FFELP loans are based on certain formulas described in this offering memorandum under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments*".

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

The first collection period with respect to the notes will be the period from the date of original issuance and delivery of the notes through _____, 2008. Thereafter, a collection period will be the three-month period ending on the last day of February, May, August and November, in each case for the distribution date in the following month.

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

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

***Overcollateralization.*** Overcollateralization represents the amount by which the Pool Balance, or the principal balance of the student loans, including interest that is expected to be capitalized, exceeds the outstanding principal amount of the Class A notes and the Class B notes. The amount of overcollateralization will vary from time to time depending on the rate and timing of the principal payments on the student loans, capitalization of interest and the occurrence of losses on the student loans. With respect to the Class A notes and the Class B notes, the overcollateralization will be available to absorb losses on the student loans that are not otherwise covered by amounts on deposit in the reserve account, the capitalized interest account or excess interest on the student loans, if any, and to cover shortfalls in interest on the Class A notes and the Class B notes that could result from the relatively low interest rate on the student loans on the one hand as compared to the interest rate on the notes and fees and expenses of the issuer on the other hand. *See "CREDIT ENHANCEMENT—Overcollateralization"* in this offering memorandum.

***Overcollateralization Amount.*** The Overcollateralization Amount represents the amount by which the Adjusted Pool Balance (which takes into account the Pool Balance, the amount on deposit in the capitalized interest account and, in certain circumstances, the Reserve Account Requirement) exceeds the outstanding principal amount of the Class A notes and the Class B notes. On the closing date, the initial Overcollateralization Amount will be equal to at least 0.01% of the Adjusted Pool Balance. The application of Available Funds described in this summary below under "*—Administration of the Trust Estate—Distributions"* is designed to build the level of the Overcollateralization Amount to, and maintain it at, the Specified Overcollateralization Amount as of the related distribution date. The Specified Overcollateralization Amount will be, with respect to any distribution date, an amount equal to a percentage of the Adjusted Pool Balance that is no greater than 5 percentage points higher than the initial Overcollateralization Amount, expressed as a percentage of the initial Adjusted Pool Balance on the closing date.

*See "CREDIT ENHANCEMENT—Overcollateralization Amount"* in this offering memorandum.

***Reserve Account***. The indenture trustee will establish and maintain the reserve account under the indenture. The indenture trustee will make a deposit from the net proceeds from the sale of the notes into the reserve account on the closing date as described in this offering memorandum under "*USE OF PROCEEDS*". Following this deposit, cash or eligible investments equal to the Reserve Account Requirement will be on deposit in the reserve account. The Reserve Account Requirement is the amount required to be maintained in the reserve account. The Reserve Account Requirement for each date it is calculated means the greater of (a) 0.25% of the Pool Balance as of the close of business on the last day of the related collection period, or (b) an amount equal to 0.15% of the Initial Pool Balance. Amounts remaining in the reserve account at the end of any collection period in excess of the Reserve Account Requirement will be deposited into the collection account and included as Available Funds for the following distribution date.

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

The reserve account will be available on each distribution date to cover any shortfalls in payments of the Class A Noteholders' Interest Distribution Amount and, as long as a Class B Interest Subordination Condition is not in effect, the Class B Noteholders' Interest Distribution Amount after applying to that shortfall amounts on deposit in the capitalized interest account. While any Class A notes and Class B notes are outstanding, the reserve account will not be available on any distribution date to cover any shortfall in payment of the Class C Noteholders' Interest Distribution Amount.

In addition, the reserve account will be available:

(a) on the maturity date for each Class A note, to cover shortfalls in payments of the Class A noteholders' principal and accrued interest, and

(b) on the maturity date for each Class B note and upon termination of the trust estate, to pay the Class B noteholders the unpaid principal balance on the Class B notes and accrued interest.

While any Class A notes and Class B notes are outstanding, the reserve account will not be available on the maturity date for the Class C notes, to cover shortfalls in payments of the Class C noteholders' principal and accrued interest.

The reserve account enhances the likelihood of payment to Class A and Class B noteholders. In certain circumstances, however, the reserve account could be depleted. This depletion could result in shortfalls in distributions to Class A and Class B noteholders.

If the market value of the reserve account on any distribution date is sufficient to pay the remaining principal and interest accrued on the Class A notes and the Class B notes, amounts on deposit in the reserve account will be so applied on that distribution date. *See* "*CREDIT ENHANCEMENT—Reserve Account*" in this offering memorandum.

***Acquisition Account***. The indenture trustee will establish and maintain the acquisition account under the indenture. On the closing date, the indenture trustee will deposit a portion of the proceeds of the sale of notes into the acquisition account as described in this offering memorandum under "*USE OF PROCEEDS*". Using the amounts in the acquisition account, we expect to pay costs of issuance of the notes, and to acquire a portfolio of student loans made under the Federal Family Education Loan Program and the Health Education Assistance Loan Program. *See "ACQUISITION OF THE STUDENT LOANS"* is this offering memorandum. Certain information relating to the portfolio of student loans expected to be acquired is provided in this offering memorandum under "*CHARACTERISTICS OF THE STUDENT LOANS*".

***Capitalized Interest Account***. The indenture trustee will establish and maintain the capitalized interest account under the indenture. On the closing date, the indenture trustee will deposit a portion of the proceeds of the sale of the notes into the capitalized interest account as described in this offering memorandum under "*USE OF PROCEEDS*". The capitalized interest account will be available to cover any shortfalls in payments of interest due to the Class A noteholders, if there is no Class B Interest Subordination Condition in effect, shortfalls in payments of interest due to the Class B Noteholders, and to pay the counterparty under any derivative product the amounts payable by the issuer as scheduled payments and as certain termination payments, in each case after application of funds available in the collection account at the end of the related collection period but before application of the reserve account. Funds in the capitalized interest account will not be replenished. While any Class A notes and Class B notes are outstanding, the capitalized interest account will not be available to cover any shortfalls in payments of interest due to the Class C noteholders. Funds on deposit in the capitalized interest account at the end of the collection periods listed in the table below in excess of the corresponding account balances will be transferred to the collection account and included in Available Funds on the following distribution date.

| **Collection Period Ending** | **Account Balance** |
|---|---|
| _____, 20___ | $_____ |
| _____, 20___ | $_____ |
| _____, 20___ | $_____ |
| _____, 20___ | $_____ |

All remaining funds on deposit in the capitalized interest account on the collection period ending on _____, 20___, after giving effect to all withdrawals from the account on or prior to that date, will be transferred to the collection account and included in Available Funds on the following distribution date. *See* "*CREDIT ENHANCEMENT—Capitalized Interest Account*" in this offering memorandum.

**Administration of the Trust Estate**

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

- *first*, deposit into the distribution account for the Secretary of Education, (i) an amount equal to the monthly rebate fee payable to the Secretary of Education expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as described in this summary under *"—Distributions"* and (ii) an amount equal to any required repayments to the Secretary of Education, if any, resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as described in this summary under *"—Distributions";*

- *second*, deposit into the distribution account for any guarantee agency, pro rata, an amount equal to payments required to be made with respect to any FFELP loans under the applicable guarantee agreement and the Higher

Education Act expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;

- *third*, deposit into the distribution account for each subservicer, pro rata, an amount equal to their fees expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;

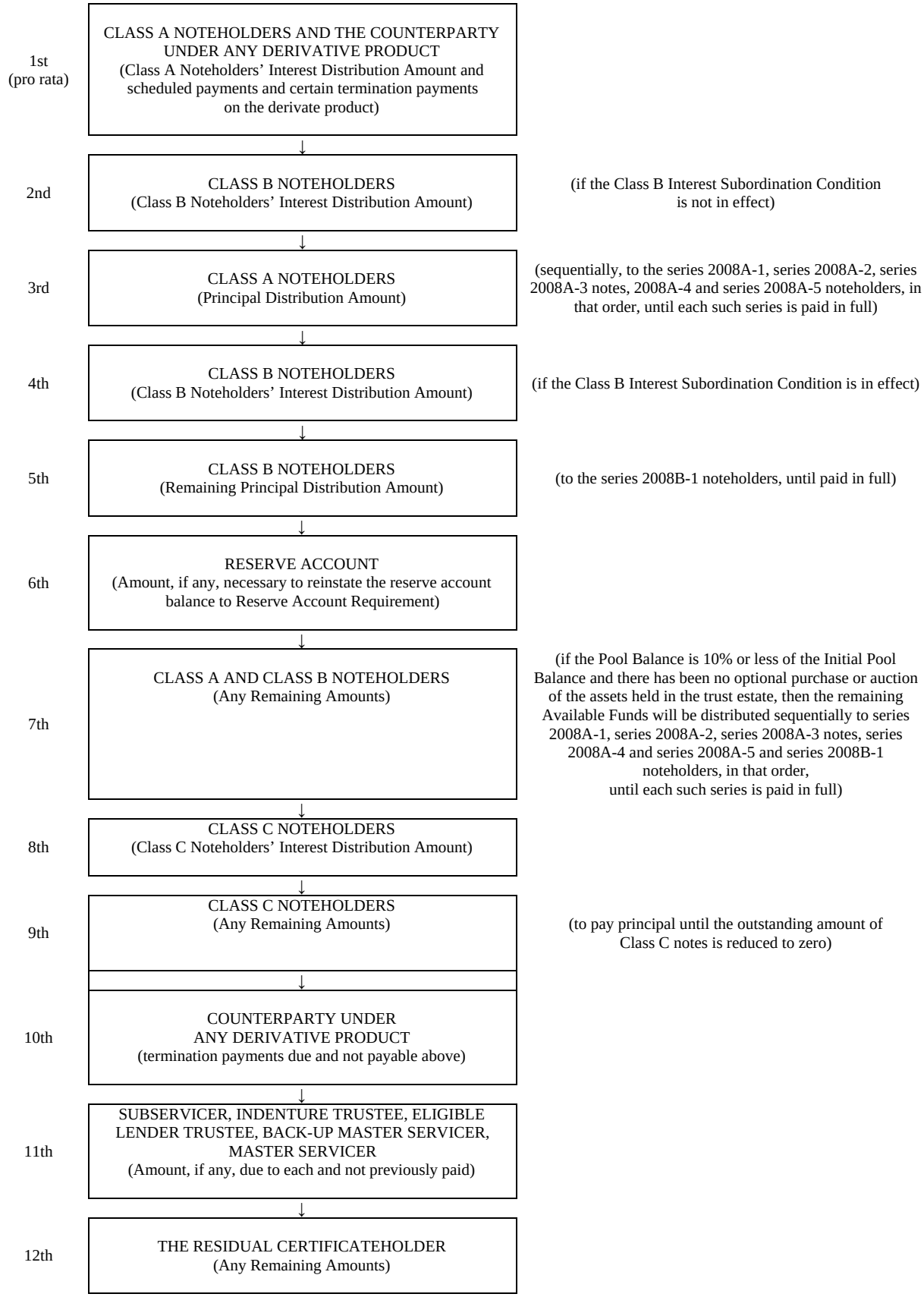
- *fourth*, deposit into the distribution account for the indenture trustee, the eligible lender trustee, the back-up master servicer described in this offering memorandum under "*THE MASTER SERVICER*" and to each rating agency, pro rata, an amount equal to their fees expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;

- *fifth*, deposit into the distribution account for the master servicer, the amount of the administration fee expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts; and

- *sixth*, deposit into the distribution account for the master servicer, the amounts required to be remitted to any third party vendor appointed by the issuer to pay the fees and expense necessary to calculate, prepare, file and provide to each noteholder and the residual certificateholder, such information as may be required by the Internal Revenue Code expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts.

***Distributions.*** On each monthly expense payment date, the indenture trustee will pay the following fees from amounts on deposit in the distribution account and allocated to the payment of those fees, and to the extent of any insufficiency, from amounts on deposit in the collection account: (i) the monthly rebate fee to the Secretary of Education at an annualized rate generally equal to 1.05% on principal of and interest on Federal Consolidation Loans described in this offering memorandum under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Fees—Rebate Fee on Federal Consolidation Loans*" and any required repayment to the Secretary of Education resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, as described in this offering memorandum under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Recapture of Excess Interest*", (ii) pro rata, the amounts payable to any guarantee agency with respect to the FFELP loans, (iii) pro rata, the fees of each subservicer, (iv) pro rata, the fees of the indenture trustee, the eligible lender trustee, the back-up master servicer and each rating agency, (v) the administration fees of the master servicer, and (vi) the amounts required to be paid to any third party vendor appointed by the issuer for the purpose of calculating, preparing, filing and providing to each noteholder and the residual certificateholder such information as may be required by the Internal Revenue Code.

On each distribution date, the indenture trustee will make the deposits and distributions set forth below, in the amounts and in the order of priority shown below, except as otherwise provided in this offering memorandum under "*DESCRIPTION OF THE NOTES—The Class B Notes—Subordination of the Class B Notes*". These deposits and distributions will be made from and to the extent of the Available Funds on that distribution date after payment of the fees set forth in the immediately preceding paragraph; from amounts transferred from the capitalized interest account with respect to clauses (a) and (b) (or only clause (a) if a Class B Subordination Condition is in effect) below on that distribution date; and from amounts transferred from the reserve account with respect to clauses (a) and (b) (or only clause (a) if a Class B Subordination Condition is in effect) below on that distribution date and with respect to the payment of principal on the Class A notes and Class B notes at their final maturities.




*See "DESCRIPTION OF THE INDENTURE—Events of Default" and "—Remedies on Default"* in this offering memorandum for a description of the cash flows on each distribution date following the occurrence of an event of default and an acceleration of the maturity of the notes.

**Monthly Issuer Fees**

The indenture trustee will make payments of certain fees and expenses prior to distributions of principal and interest on the notes. Those fees and expenses include payments to the Secretary of Education as rebate fees, the guarantee agencies, each subservicer, the indenture trustee, the eligible lender trustee and the master servicer. *See* "*DESCRIPTION OF THE NOTES—Monthly Issuer Fees*" in this offering memorandum for a more detailed description of monthly issuer fees. These payments also include any required repayment to the Secretary of Education resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, as described in this offering memorandum under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Recapture of Excess Interest*". Administration fees and subservicer fees will be paid on each monthly expense payment date by the indenture trustee as described in this summary under "*—Administration of the Trust Estate— Distributions*".

**Servicing of the Student Loans**

The Brazos Higher Education Service Corporation, Inc., as the master servicer, will be responsible for servicing and making collections on the student loans. It will also bill and collect payments from the guarantee agencies, the Department of Education and the Secretary of Health and Human Services. With respect to the student loans expected to be acquired and held under the indenture, the master servicer will perform its servicing obligations through separate subservicing agreements with each of ACS Commercial Education & Financial Services (formerly ACS Education Services, Inc.), Chase Student Loan Servicing, LLC (formerly CFS-SunTech Servicing LLC), Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency and Sallie Mae Servicing. *See* "*THE MASTER SERVICER*" in this offering memorandum.

**Compensation of the Master Servicer**

The master servicer will receive an administration fee equal to 0.15% per annum of the average monthly outstanding principal balance of student loans held in the trust estate under the indenture. The administration fee may also include specified amounts payable to the master servicer for tasks it performs. The administrative fee payable to the master servicer does not include any fees or other amounts due to other third parties. The administration fee may be increased if the indenture trustee has received confirmation from each rating agency then rating any of the outstanding notes that its then-current rating(s) of those notes will not be reduced or withdrawn as a result of such increase.

**Termination of the Trust Estate**

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

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

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

**Optional Purchase**

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

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

- reduce the outstanding principal amount of each series of notes then outstanding on the related distribution date to zero;
- pay to noteholders the interest payable on the related distribution date;
- pay any unpaid monthly issuer fees as described in this summary under "*—Administration of the Trust Estate—Distributions*" on the related distribution date; and

- pay all amounts due to the counterparty under any derivative product.

**Auction of the Student Loans**

The indenture trustee will offer for sale by auction all remaining student loans following the distribution date when the Pool Balance is 10% or less of the Initial Pool Balance. The auction date will be the 3rd business day before the next distribution date. An auction will occur only if the issuer has first waived its optional purchase right. The issuer will waive its option to purchase the remaining student loans if it fails to notify the eligible lender trustee and the indenture trustee, in writing, that it intends to exercise its purchase option before the indenture trustee accepts a bid to purchase the student loans. The issuer, the master servicer, any entity managed by the master servicer, and unrelated third parties may offer bids to purchase the student loans. The issuer, the master servicer or any entity managed by the master servicer may not submit a bid representing greater than fair market value of the student loans.

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

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

If the sale is not completed, the indenture trustee may, but will not be under any obligation to, solicit bids for sale of the student loans after future collection periods upon terms similar to those described above, including the issuer's waiver of its option to purchase remaining student loans.

If the student loans are not sold as described above, on each subsequent distribution date on which the Pool Balance is equal to 10% or less of the Initial Pool Balance, the indenture trustee will distribute as accelerated payments of principal on the Class A notes and the Class B notes all amounts that would otherwise be paid to (i) the holders of the Class C notes, (ii) the counterparty under any derivative product certain termination payments that are due, (iii) the indenture trustee, the eligible lender trustee, the back-up master servicer or the master servicer the amount, if any, due to each not previously paid, or (iv) the residual certificateholder and amounts on deposit in the reserve account in excess of the Reserve Account Requirement. *See "—Administration of the Trust Estate—Distributions"* in this summary.

**Derivative Product and Derivative Payments**

The issuer may enter into a derivative product agreement with a counterparty secured by a pledge of and lien on the trust estate on or about the closing date. We will not enter into a derivative product unless the indenture trustee has received a confirmation from each rating agency then rating any of our outstanding notes that the derivative product will not result in its rating(s) of those notes being reduced or withdrawn. *See "CREDIT ENHANCEMENT—Derivative Product Agreement*" in this offering memorandum. The counterparty to any derivative product agreement that we enter into will be required to have a long term rating of at least "A2" by Moody's Investors Service, Inc. and will be required to have a short term rating of at least "A-1" or a long term rating of at least "A+" by Standard & Poor's.

**Capitalization of Notes Under the Indenture**

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

| Series | Capitalization |
|---|---|
| Series 2008A-1 Notes ..... | $ _____ |
| Series 2008A-2 Notes ..... | $ _____ |
| Series 2008A-3 Notes ..... | $ _____ |
| Series 2008A-4 Notes ..... | $ _____ |
| Series 2008A-5 Notes ..... | $ _____ |
| Series 2008B-1 Notes ..... | $ _____ |
| Series 2008C-1 Notes ..... | $ _____ |
| Total..... | $ _____ |

**Registration, Clearing and Settlement**

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

**ERISA Considerations**

Subject to the considerations discussed in this offering memorandum under "*ERISA CONSIDERATIONS*", the Class A notes, the Class B notes and under limited circumstances as described herein, the Class C notes are eligible for purchase by or on behalf of, or with assets of, certain employee benefit plans and other retirement accounts.

**Federal Income Tax Consequences**

In the opinion of Squire, Sanders & Dempsey L.L.P., the Class A notes and Class B notes will be characterized as debt obligations for federal income tax purposes. In addition, the issuer intends to treat the Class C notes as debt obligations for federal income tax purposes. Interest paid or accrued on the notes (as well as any original issue discount relating to such notes) will be taxable to you. *See* "*FEDERAL INCOME TAX CONSEQUENCES*" in this offering memorandum.

**Ratings**

It is a condition to the sale of the Class A notes that they be rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's. It is a condition to the sale of the Class B notes that they be rated at least "Aa2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's. It is a condition to the sale of the Class C notes that they be rated at least "B3" by Moody's Investors Service, Inc., at least "B-" by Standard & Poor's or at least by "B-" Fitch Ratings.

**Listing Information**

We intend to apply for a listing of the Class A notes on the Irish Stock Exchange. There can be no assurance that this listing will be obtained. The issuance and settlement of the Class A notes is not conditioned on the listing of the Class A notes on the Irish Stock Exchange.

**Risk Factors**

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

**Identification Numbers**

The notes will have the following CUSIP Numbers, International Securities Identification Numbers (ISIN) and European Common Codes:

| Series | CUSIP Numbers | ISINs | European Common Codes |
|---|---|---|---|
| Series 2008A-1 Notes..... | | | |
| Series 2008A-2 Notes..... | | | |
| Series 2008A-3 Notes..... | | | |
| Series 2008A-4 Notes..... | | | |
| Series 2008A-5 Notes..... | | | |
| Series 2008B-1 Notes..... | | | |
| Series 2008C-1 Notes..... | | | |

## RISK FACTORS

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

***You may have difficulty selling your notes***

The notes will be a new issue without an established trading market. We cannot assure you that a secondary market for the notes will develop. If a secondary market for the notes does develop, the spread between the bid price and the asked price for your notes may widen, thereby reducing the net proceeds to you from the sale of your notes.

There is currently a very limited market for asset-backed securities. There may be a similar lack of liquidity at times in the future. As a result, you may not be able to sell your notes when you want to do so, or you may not be able to sell your notes at prices that will enable you to realize your desired yield. The market values of the notes are likely to fluctuate. Any of these fluctuations may be significant and could result in significant losses to you.

***Subordination of the Class C Notes and the Class B Notes and Sequential Payment of the Class A Notes May Result in a Greater Risk of Loss***

Class C Noteholders and, to a lesser extent, the holders of Class B notes and, to a still lesser extent, holders of Class A notes with higher numerical designations, bear a greater risk of loss than holders of Class A notes with lower numerical designations because:

- On each distribution date, distributions of interest and principal on the Class C notes will be subordinate to the payment of interest and required principal on the Class A notes and the Class B notes;
- On each distribution date, distributions of interest on the Class B notes will be subordinate to the payment of interest on the Class A notes and, if a Class B Interest Subordination Condition is in effect, to the payment of principal on the Class A notes. Distributions of principal of the Class B notes will be subordinate to the payment of both interest and principal on the Class A notes;
- No principal will be paid to the Class B noteholders until the principal amount of each of the Class A notes has been reduced to zero; and
- No principal will be paid to any holders of Class A notes with higher numerical designations until the principal amount of each series of Class A notes having a lower numerical designation has been reduced to zero.

Holders of later maturing Class A notes bear a greater risk of loss than do holders of earlier maturing Class A notes because, prior to an event of default, no principal will be paid to any Class A noteholders until each series of Class A notes having an earlier maturity has been paid in full.

***Investors in the Class B Notes Bear Greater Risk of Loss than the Class A Notes Because the Priority of Payment of Interest and the Timing of Principal Payments on the Class B Notes May Change Due to the Variability of Cash Flows***

Interest on the Class B notes generally will be paid prior to payment of principal on the Class A notes. However, if after giving effect to all required distributions of principal and interest on the notes on any distribution date, the outstanding principal balance of the student loans held in the trust estate, including accrued interest thereon, amounts then on deposit in the capitalized interest account (after any distributions of interest from that account) and amounts then on deposit in the reserve account, would be less than the outstanding principal amount of the Class A notes, interest on the Class B notes will be subordinate to the payment of principal on the Class A notes on that distribution date.

Payments of principal on the Class B notes will not begin to be paid until the principal amount of each of the Class A notes is paid in full.

***Investors in the Class C Notes Bear Greater Risk of Loss than the Class A Notes and the Class B Notes Because of the Priority of Payment of Interest and Principal on the Class C Notes under***

On any distribution date, payments of interest and principal on the Class C notes will be subordinate to the payment of interest and required principal payments on the Class A notes and the Class B notes. For any distribution date, interest and principal payments on the Class C notes will only be made to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under *"DESCRIPTION OF THE NOTES—Allocations and Distributions"*. Generally, no

***the Indenture***

amounts will be paid to the Class C notes unless the Overcollateralization Amount with respect to that distribution date is at least equal to the Specified Overcollateralization Amount, the amount on deposit in the reserve account is equal to the Reserve Account Requirement and there are Available Funds remaining after all prior required distributions. *See "CREDIT ENHANCEMENT—Overcollateralization Amount"* in this offering memorandum.

As long as any Class A notes or Class B notes are outstanding, the failure to pay interest on any Class C notes will not constitute an event of default under the indenture.

***The Class B notes and Class C notes are all intended to trade at prices significantly below par or face value***

The Class B notes and the Class C notes have not been structured to trade initially at their par or face value and the Class B notes and the Class C notes each contain terms that are expected to cause them to trade at a significant discount to such value. In addition, because there is no established trading market for the Class B notes and the Class C notes, there can be no assurance of what market value they may have. Holders must independently consider the value of such securities.

***The U.S. tax treatment of the Class C Notes are uncertain***

No statutory, judicial, or administrative authority directly addresses securities with terms similar to the Class C notes. Accordingly, the characterization of the Class C notes is subject to some uncertainty. For example, the timing of the recognition of income with respect to the Class C notes for U.S. tax purposes may be different from the treatment set forth under "*FEDERAL INCOME TAX CONSEQUENCES*" in this offering memorandum. No ruling is being requested from the Internal Revenue Service with respect to the Class C notes, and no assurance can be given that the Internal Revenue Service will agree with the conclusions expressed under "*FEDERAL INCOME TAX CONSEQUENCES*" in this offering memorandum. Prospective holders should consult their own tax advisors to determine the tax consequences to them of holding the Class C notes.

***The Class C notes will not provide regular or predictable payments of interest and principal***

The Class C notes will not provide a regular or predictable schedule of payments or payment on any specific distribution date. For any distribution date, interest and principal payments on the Class C notes will only be made to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under "*DESCRIPTION OF THE NOTES—Allocations and Distributions*".

Generally, no amounts will be paid to the Class C notes unless the Overcollateralization Amount with respect to that distribution date is at least equal to the Specified Overcollateralization Amount. As a result, based on the assumptions described in this offering memorandum under "*PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE NOTES*", we do not expect to pay any interest on the Class C notes until the distribution date occurring approximately 6 years after the closing date. However, depending on the amount and timing of payments that will be received on the student loans, any payments of interest on the Class C notes could occur prior to or after that distribution date. It is impossible to predict the amount and timing of payments that will be received on the student loans, and consequently, when interest and principal will be paid on the Class C notes.

***You Will Bear Prepayment And Extension Risk Due To Actions Taken By Individual Borrowers And Other Variables Beyond Our Control***

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

On the other hand, the student loans may be extended as a result of grace periods, deferment periods and, under some circumstances, forbearance periods. This may lengthen the remaining term of the student loans and delay principal payments to you. In addition, the amount available for distribution to you will be reduced if borrowers fail to pay timely the principal and interest due on the student loans. Consequently, the length of

time that your notes are outstanding and accruing interest may be longer than you expect.

Any optional purchase right and the provision for the auction of the student loans create additional uncertainty regarding the timing of payments to noteholders.

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

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

Fees and expenses are payable from the trust estate prior to the payment of principal and interest on your notes. Certain of those fees and expenses are not fixed and may reasonably be expected to increase over time, such as those payable to subservicers. Material increases in fees and expenses will reduce the amount of funds available to pay principal and interest on your notes and may result in insufficient funds being available for such payment. *See* "*DESCRIPTION OF THE NOTES—Monthly Issuer Fees*" in this offering memorandum.

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

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

***Your notes may have a greater basis risk and the ability to pay principal and interest on your notes may be compromised if the counterparty defaults under a derivative product agreement***

On or about the closing date, the issuer may enter into a derivative product agreement to mitigate the basis risk associated with the notes. *See* "*CREDIT ENHANCEMENT—Derivative Product Agreement*" in this offering memorandum.

Any derivative product agreement may contain provisions regarding early termination of such derivative product agreement upon the occurrence of certain events that are specified in the derivative product agreement. If an early termination of any derivative product agreement occurs, the issuer may no longer have the benefit of the derivative product agreement. You cannot be certain that the issuer will be able to enter into a substitute derivative product agreement. Furthermore, depending on the reason for the termination, a termination payment may be due from either the issuer or the related counterparty. If a termination event under a derivative product occurs and the issuer owes the counterparty a large termination payment that is required to be paid pro rata with interest due to the Class A notes, the trust estate created under the indenture may not have sufficient available money on that or future distribution dates to make required payments of interest or principal, and the holders of all series of notes may suffer a loss.

If a payment is due to the issuer under any derivative product agreement, a default by the counterparty thereunder may reduce the amount of funds available to pay principal and interest on your notes.

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

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

The Higher Education Relief Opportunities for Students Act of 2003 (HEROES Act of 2003) was signed into law on August 18, 2003, the HEROES Act of 2003 was set to expire on September 30, 2007. However, on September 30, 2007 the President signed into law H.R. 3625 to permanently extend provisions of the HEROES Act of 2003. The HEROES Act of 2003 authorizes the Secretary of Education, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary to ensure that student loan borrowers who: (i) are serving on active military duty during a war or other military operation or national emergency; (ii) are serving on National Guard duty during a war or other military operation or national emergency; (iii) reside or are employed in an area that is declared by any federal, state or local official to be a disaster area in connection with a national emergency; or (iv) suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary, to ensure that such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance, to ensure that administrative requirements in relation to that assistance are minimized, to ensure that calculations used to determine need for such assistance accurately reflect the financial condition of such individuals, to provide for amended calculations of overpayment, and to ensure that institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable. The number and aggregate principal balance of student loans that may be affected by the application of the HEROES Act of 2003 is not known at this time. Accordingly, payments received by the issuer on student loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers become eligible for the relief provided under the HEROES Act of 2003, there could be an adverse effect on the total collections on the student loans and the ability of the issuer to pay interest on the notes.

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

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

The notes are payable solely from the funds and assets held in trust estate created under the indenture. No insurance or guarantee of those notes will be provided by any government agency or instrumentality, by Leon Higher Education Authority, Inc., by any insurance company or by any other person or entity. Therefore, your receipt of payments on your notes will depend solely on:

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

- with respect to the Class A notes and the Class B notes, amounts on deposit in the capitalized interest account, the reserve account and other accounts held in the trust estate.

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

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

The Overcollateralization Amount represents the amount by which the Adjusted Pool Balance (which takes into account the Pool Balance, the amount on deposit in the capitalized interest account and, in certain circumstances, the Reserve Account Requirement) exceeds the outstanding principal amount of the Class A notes and the Class B notes. On the closing date, the initial Overcollateralization Amount will be equal to at least equal to 0.01% of the Adjusted Pool Balance.

If an event of default were to occur under the indenture and the issuer were required to pay unpaid interest and principal on all of the notes as a result of an acceleration of the maturity of the notes, the Class C noteholders would only be repaid accrued and unpaid interest and principal to the extent that the Adjusted Pool Balance exceeds the outstanding principal amount and accrued and unpaid interest on the Class A notes and the Class B notes. In addition, if the indenture trustee had to liquidate all or a portion of the student loans upon the occurrence of an event of default, the indenture trustee might not be able to sell the student loans for their full par value. Therefore, even though the assets held in the trust estate may exceed the outstanding principal amount of the Class A notes and the Class B notes at any given time, the possibility exists that the indenture trustee, in the event of acceleration of the outstanding notes, may not be able to sell the student loans and other assets in the trust estate for a sufficient amount to pay the principal of and accrued interest on all outstanding Class A notes and Class B notes. If this were to occur, we would be unable to pay any amounts to the Class C noteholders, and we may be unable to repay in full all of the Class A noteholders and the Class B notes. Such event would affect the Class B noteholders before affecting the Class A noteholders because of the order of payment priority set forth in the indenture. *See "DESCRIPTION OF THE INDENTURE—Events of Default" and "—Remedies on Default"* in this offering memorandum for a description of the cash flows following the occurrence of an event of default and an acceleration of the maturity of the notes.

***The student loans acquired with the note proceeds will be unsecured and the ability of any guarantee agency to honor its guarantee may become impaired***

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

A deterioration in the financial status of a guarantee agency and its ability to honor guarantee claims on defaulted FFELP loans could result in a failure of that guarantee agency to make its guarantee payments in a timely manner. The financial status of a guarantee agency could be adversely affected by a number of factors including, but not limited to, the amount of claims made against it as a result of borrower defaults, the amount of claims reimbursed to that guarantor from the Department of Education, which range from 75% to 100% of the guaranteed portion of the loan depending on the date the loan was made, the performance of the guarantee agency and changes in legislation that may reduce expenditures from the Department of Education that support federal guarantee agencies or that may require guarantee agencies to pay more of their reserves to the Department of Education. In general, under current law a guarantee agency reinsured by the Department of Education will guarantee 98% of each FFELP loan originated prior to July 1, 2006, 97% of each FFELP loan first disbursed on or after July 1, 2006 and 95% of each FFELP loan made on or after October 1, 2012. If the financial condition of a guarantee agency deteriorates, it may fail to make guarantee payments in a timely manner, or at all. In that event, you may suffer delays in payment or losses on your notes.

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

The statistical information in this offering memorandum reflects only the characteristics of the student loans that we expect to acquire as of the statistical cut-off date. *See* "*CHARACTERISTICS OF THE STUDENT LOANS*" in this offering memorandum. The student loans as they exist on or about the closing date will have characteristics that differ somewhat from the characteristics of the student loans as of the statistical cut-off date described in this offering memorandum due to payments received on and other changes in these loans that occur during the period from the statistical cut-off date to the closing date. We expect that student loans will be added to, and removed from, the student loans described in this offering memorandum between the statistical cut-off date and the closing date.

We do not expect the characteristics of the student loans actually acquired on the closing date to differ materially from the characteristics of the student loans described in this offering memorandum as of the statistical cut-off date. However, in making your investment decision, you should assume that the actual characteristics of the student loans will vary somewhat from the characteristics of the student loans presented in this offering memorandum as of the statistical cut-off date.

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

The financial condition of a guarantee agency may be adversely affected if it submits a large number of reimbursement claims relating to FFELP loans to the Department of Education, which results in a reduction of the amount of reimbursement that the Department of Education is obligated to pay to the guarantee agency. The Department of Education may also require a guarantee agency to return its reserve funds to the Department of Education upon a finding that the reserves are unnecessary for the guarantee agency to pay its program expenses or to serve the best interests of the Federal Family Education Loan Program. The inability of any guarantee agency to meet its guarantee obligations could reduce the amount of principal and interest paid to you as an owner of the notes or delay those payments past their due date. If the Department of Education has determined that a guarantee agency is unable to meet its guarantee obligations relating to FFELP loans, the loan holder may submit claims directly to the Department of Education and the Department of Education is required to pay the full guarantee claim amount due with respect thereto. *See* "*DESCRIPTION OF THE GUARANTEE AGENCIES*" in this offering memorandum. However, the Department of Education's obligation to pay guarantee claims directly in this fashion is contingent upon the Department of Education making the determination that a guarantee agency is unable to meet its guarantee obligations. The Department of Education may not ever make this determination with respect to a guarantee agency and, even if the Department of Education does make this determination, payment of the guarantee claims may not be made in a timely manner.

***Payment offsets by guarantee agencies or the Department of Education could prevent us from paying you the full amount of the principal and interest due on your notes***

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

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

The Department of Education regards the eligible lender trustee as the party primarily responsible to the Department of Education for any liabilities owed to the Department of

Education or guarantors resulting from the eligible lender trustee's activities in the Federal Family Education Loan Program. As a result, if the Department of Education or a guarantor were to determine that the eligible lender trustee owes a liability to the Department of Education or a guarantor on any FFELP loan for which the eligible lender trustee is or was legal titleholder, including FFELP loans held in the trust estate or other trust estates, the Department of Education or guarantor may seek to collect that liability by offset against payments due the eligible lender trustee under the trust estate. In the event that the Department of Education or a guarantor determines such a liability exists in connection with a trust estate using the shared lender identification number, the Department of Education or guarantor would be likely to collect that liability by offset against amounts due the eligible lender trustee under the shared lender identification number, including amounts owed in connection with the trust estate.

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

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

The trust estate securing your notes will contain student loans made under the Federal Family Education Loan Program and student loans made under the Health Education Assistance Loan Program. In general, under current law a guarantee agency reinsured by the Department of Education will guarantee 98% of each FFELP loan held in the trust estate originated on or before June 30, 2006 and 97% of each FFELP loan held in the trust estate first disbursed on or after July 1, 2006. As a result, if the borrower under one of those FFELP loans defaults, the trust estate will experience a loss of approximately 2% or 3%, as the case may be, of the outstanding principal and accrued interest on the defaulted loan. We will have no right to pursue the borrower for the remaining 2% or 3% unguaranteed portion.

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

If the trust estate suffers a loss as a result of a borrower default and, with respect to the Class A notes and the Class B notes, amounts in the capitalized interest account and the reserve account are not sufficient to cover that loss, you may suffer a delay in payment or a loss on your investment.

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

For a variety of economic, social and other reasons, we may not receive all the payments that are actually due on the student loans held in the trust estate. A deterioration in economic conditions could be expected to adversely affect the ability or willingness of borrowers to repay student loans. Furthermore, student loans are not secured by any assets of the borrowers. Failures by borrowers to make timely payments of the principal and interest due on the student loans held in the trust estate will affect the revenues of the trust estate, which may reduce the amounts available to pay principal and interest due on the notes.

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

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

If we fail to follow those procedures, or if any guarantee agency, originator, the master servicer or any subservicer of FFELP loans fails to follow those procedures, the Department of Education and the guarantee agencies may refuse to pay claims on defaulted loans submitted by the master servicer on behalf of the trust estate. If the

Department of Education or a guarantee agency refused to pay a claim, it would reduce the revenues of the trust estate and impair our ability to pay principal and interest on your notes. *See* "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*" in this offering memorandum.

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

A lender and servicer must follow certain procedures in making HEAL loans, and must exercise due diligence in the collection of a HEAL loan with respect to both a borrower and any endorser, in accordance with regulations of the Secretary of Health and Human Services. If these procedures are not followed or such due diligence is not exercised, the lender's ability to realize the benefits of the insurance provided by the Secretary of Health and Human Services may be adversely affected. If the Secretary of Health and Human Services refused to pay a claim, that refusal would reduce the revenues payable to the trust estate and impair the issuer's ability to pay principal and interest on the notes. *See "DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM"* in this offering memorandum.

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

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

***A decline in the financial health of a derivative product counterparty could reduce the amount of funds available to pay principal and interest on your notes and derivative products may not effectively mitigate risks associated with interest rate fluctuations***

Any time that the derivative payment being paid by the counterparty is greater than the derivative payment being paid out of the trust estate, the indenture trustee's ability to make principal and interest payments on the notes will be affected by the counterparty's ability or the ability of any provider of a counterparty guaranty to meet its net payment obligation to the indenture trustee. In addition, under some circumstances, the failure by indenture trustee to make a derivative payment may constitute an event of default under the indenture.

Developing an effective strategy for dealing with movements in interest rates is complex, and no strategy can completely insulate the trust estate from risks associated with interest rate fluctuations. Furthermore, the hedging activities could result in substantial losses if interest rates move materially differently from expectations. As a result, there can be no assurance that any hedging activities will effectively mitigate interest rate exposure.

***The inability of the issuer to meet its repurchase obligations may result in losses on your investment***

Under some circumstances, the indenture trustee will have the right to require the issuer to repurchase, or substitute a student loan for, a student loan held in the trust estate. This right arises generally from a breach of our representations and warranties or if a claim for a student loan is denied because of events occurring before the student loan is transferred to the trust estate. *See "DESCRIPTION OF THE INDENTURE—Repurchase Obligation"* in this offering memorandum. We cannot guarantee to you that we will have the financial resources to repurchase a student loan, or will have available student loans to substitute a student loan, if a breach occurs. In this case, you may bear any resulting loss.

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

The cash flow attributable to the trust estate, and our ability to make payments due on the notes, will be reduced to the extent interest is not currently payable on the student loans held in the trust estate. The borrowers under most FFELP loans are not required to make

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

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

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

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

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

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

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

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

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

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

*"—Auction of the Student Loans*".

***Implementation of borrower incentive programs and changes in repayment terms may result in yield uncertainties for you***

The originators of the student loans to be acquired with the proceeds of the notes may implement incentive programs pursuant to which the originator may offer incentives or change the repayment terms with respect to any or all of a borrower's student loans. We cannot predict which borrowers would qualify or decide to participate in such programs. The effect of such incentive programs might be to reduce the yield on the student loans held in the trust estate securing your notes. *See* "*REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans."*

***Recent changes in the Federal Family Education Loan Program may adversely affect participants in the Federal Family Education Loan Program***

On September 27, 2007, President Bush signed the College Cost Reduction and Access Act into law. The College Cost Reduction and Access Act contains significant changes to the Federal Family Education Loan Program and could adversely affect participants in the Federal Family Education Loan Program, including the issuer and the master servicer. Certain provisions of the Higher Education Act governing the Federal Family Education Loan Program amended by the College Cost Reduction and Access Act are described in this offering memorandum under "*THE MASTER SERVICER—Recent Developments—Recently Enacted Legislation and Regulations*" and "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*".

*See* "*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Disbursement Date as of the Statistical Cut-Off Date*" for a break-down of the percent of student loans expected to be acquired that were originated after October 1, 2007 and are therefore subject to the lower yields established under the College Cost Reduction and Access Act.

Generally, lower lender yields and increased lender expenses established under the College Cost Reduction and Access Act could adversely affect participants in the Federal Family Education Loan Program, including the master servicer and the issuer. The full impact of this recent legislation on participants in the Federal Family Education Loan Program, including the issuer, is difficult to predict. *See* "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*" in this offering memorandum.

On June 15, 2006, President Bush signed into law H.R. 4939, which eliminates the "single holder" rule that required borrowers of federal Consolidation Loans to borrow from the lender that holds all of that borrower's student loans. Therefore, for federal consolidation loan applications received on or after June 15, 2006, borrowers may borrow federal consolidation loans from any authorized FFELP lender or under the Federal Direct Student Loan Program. This increased access to lenders for federal consolidation loans may lead to an increase in loan consolidations and pre-payment. These amendments to the Higher Education Act may adversely affect holders of student loans and may adversely affect the issuer and the issuer's student loan program. S*ee* "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*" and "*DESCRIPTION OF THE GUARANTEE AGENCIES*" in this offering memorandum for a description of the Federal Family Education Loan Program.

***Future Changes in the Federal Family Education Loan Program or other relevant laws may adversely affect the student loans held in the trust estate securing your notes***

Since its original enactment in 1965, the Higher Education Act has been amended and reauthorized several times. Furthermore, funds for payment of interest subsidies and other payments under the Federal Family Education Loan Program are subject to annual budgetary appropriation by Congress. In recent years, federal budget legislation has contained provisions that restricted payments made under the Federal Family Education Loan Program to achieve reductions in federal spending. Future federal budget legislation may adversely affect expenditures by the Department of Education, and the financial condition of the guarantee agencies. Congressional amendments to the Higher Education Act or other relevant federal laws, and rules and regulations promulgated by the Secretary of Education, may adversely affect holders of student loans in ways that could restrict the future ability of secondary market participants such as the issuer to finance student loans. For example, changes might be made to the rate of interest paid on student loans, to the level of insurance provided by guarantee agencies, to the type of disclosure lenders are required to provide to borrowers or to the servicing requirements for student loans. There

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

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

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

***Competition created by the Federal Direct Student Loan Program may affect the Federal Family Education Loan Program***

In 1992, Congress created the Federal Direct Student Loan Program. Under this program, the Department of Education makes loans directly to student borrowers through the educational institutions that they attend. If the Federal Direct Student Loan Program expands, the master servicer and any subservicer may experience increased costs due to reduced economies of scale to the extent the volume of loans serviced by the master servicer or any subservicer is reduced. Those cost increases could affect the ability of the master servicer and any subservicer to satisfy its obligations to service the student loans held in the trust estate securing your notes. Student loan volume reductions could further reduce revenues received by the guarantee agencies available to pay claims on defaulted FFELP loans. The level of competition currently in existence in the secondary market for FFELP loans could be reduced, resulting in fewer potential buyers of FFELP loans and lower prices available in the secondary market for those loans. The Department of Education has implemented a direct consolidation loan program, which may increase the rate of repayment of the student loans held in the trust estate securing your notes.

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

The interest rates on your notes may fluctuate from one interest period to another as described in this offering memorandum. The FFELP loans bear interest, taking into account special allowance payments, if any, at the rates described in this offering memorandum under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Special Allowance Payments*" in this offering memorandum. The HEAL loans bear interest at a fixed rate or on a variable basis. If there is a decline in the rates payable on the student loans held in the trust estate securing your notes, the amount of interest received may be reduced. If the interest rates payable on your notes do not decline in a similar manner and time, there may be insufficient funds to pay interest on your notes when it becomes due. Even if there is a similar reduction in the interest rates applicable to your notes, there may not necessarily be a reduction in the other amounts required to be paid out of the trust estate, such as administrative expenses, causing interest payments on your notes to be deferred to future periods. Sufficient funds may not be available in future periods to make up for any shortfalls in the current payments of interest on your notes or expenses of the trust estate.

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

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

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

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

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

Consumer protection laws impose requirements upon lenders and servicers. Some state laws impose finance charge restrictions on certain transactions and require certain disclosures of legal rights and obligations. Furthermore, to the extent applicable, those

| | |
|---|---|
| ***and uncertainties*** | laws can impose specific statutory liabilities upon creditors who fail to comply with their provisions and may affect the enforceability of their loans. As they relate to FFELP loans, those state laws are generally preempted by the Higher Education Act. |
| ***The security of confidential information received by the issuer and the master servicer relating to borrowers could be jeopardized*** | The issuer and master servicer receive confidential information relating to borrowers. There can be no assurance that this information will not be subject to breaches of security, computer theft and other improper activity that could jeopardize the security of this information. Any such breach in security could expose the issuer or the master servicer to litigation, loss of business, regulatory enforcement action or additional expense. |
| ***Less than all of the noteholders can approve amendments to the indenture or waive defaults under the indenture*** | Under the indenture, holders of specified percentages of the aggregate principal amount of the notes issued thereunder may amend or supplement provisions of the indenture and the notes and waive events of default and compliance provisions without the consent of the other noteholders. You will have no recourse if the noteholders vote and you disagree with the vote on those matters. The noteholders may vote in a manner that impairs our ability to pay principal and interest on your notes. |
| ***Book-entry registration may limit your ability to participate directly as a noteholder*** | The notes will be represented by one or more certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in the names of the noteholders. As a noteholder, you will be able to exercise your rights only indirectly through The Depository Trust Company and its participating organizations. |
| ***The notes are not suitable investments for all investors*** | The notes are not a suitable investment if you require a regular or predictable schedule of payments or payment on any specific date. The notes are complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of an investment, and the interaction of those factors. |
| ***Withdrawal or downgrading of the initial ratings will adversely affect the prices for your notes*** | A security rating is not a recommendation to buy, sell or hold securities. Similar ratings on different types of securities do not necessarily mean the same thing. We recommend that you analyze the significance of each rating independently from any other rating. Any rating agency may change its rating of any series of notes after those notes are issued if that rating agency believes that circumstances have changed. Any subsequent withdrawal or downgrading of a rating on a series of notes will likely reduce the price that a subsequent purchaser will be willing to pay for that series of notes. |
| ***Citigroup Global Markets Inc. has conflicts of interest*** | Citigroup Global Markets Inc. will be an underwriter for the Class A notes. In addition, Citigroup Global Markets Inc. is the dealer manager for a private exchange offer pursuant to which the proceeds from the sale of Class A notes will be offered to purchase and cancel or otherwise cause the redemption of all of the outstanding obligations issued by the Sellers that are secured by the student loans under separate indentures of trust and the Class B notes and the Class C notes will be offered to the holders of certain of those outstanding obligations issued by the Sellers as part of the consideration we will pay to purchase those obligations. Citigroup Global Markets Inc. or its affiliates own a substantial amount of such outstanding obligations issued by the Sellers. As a result, Citigroup Global Markets Inc. and its affiliates have a material economic interest in the successful outcome of such private exchange offer and the successful issuance of the notes being offered pursuant to this offering memorandum that is in addition to any dealer manager or underwriter fees it might earn. |

## FORWARD-LOOKING STATEMENTS

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

## DESCRIPTION OF THE NOTES

### General

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

We will issue the Class A notes in minimum denominations of $100,000 (or if greater, the U.S. dollar equivalent of 50,000 euros) and in integral multiples of $1,000 in excess thereof. We will issue the Class B notes and the Class C notes in minimum denominations of $1,000 and in integral multiples of $1 in excess thereof. The notes will be represented by one or more certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in the names of the noteholders. Unless definitive notes are issued under the limited circumstances described herein under "*— Book-Entry Registration*", no holder will be entitled to receive a physical certificate representing a note. All references to actions by noteholders refer to actions taken by The Depository Trust Company on instructions from its participating organizations and all references to distributions, notices, reports and statements to noteholders refer to distributions, notices, reports and statements to The Depository Trust Company or its nominee, as the registered holder of the notes, for distribution to noteholders under The Depository Trust Company's procedures. *See* "*— Book-entry Registration*" in this offering memorandum.

### Interest Rates

Except for the first accrual period, the notes will bear interest at the annual rates listed below.

| Series | Interest Rate |
|---|---|
| Series 2008A-1 | three-month LIBOR plus ___% |
| Series 2008A-2 | three-month LIBOR plus ___% |
| Series 2008A-3 | three-month LIBOR plus ___% |
| Series 2008A-4 | three-month LIBOR plus ___% |
| Series 2008A-5 | three-month LIBOR plus ___% |
| Series 2008B-1 | three-month LIBOR plus 2.75% |
| Series 2008C-1 | three-month LIBOR plus 3.00% |

For the first accrual period, the rate on the notes shall be determined by the calculation agent by reference to straight line interpolation between ____-month and _____-month LIBOR determined by the following formula:

$$x + [___/___ * (y-x)]$$

where: $x =$ _____-month LIBOR, and

$y =$ _____-month LIBOR.

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

We are offering the Class B notes and the Class C notes described in this offering memorandum in exchange for certain outstanding obligations issued by the Sellers. At the time holders tender such outstanding obligations in connection with the related exchange offer and at the time the right to withdraw such tenders expires, the rate at which interest will accrue on the Class A notes will not have been determined, and therefore such information will not be made available to such holders. The greater the interest rate

on the Class A notes is, the smaller the amount of Available Funds there will be on each distribution date to pay interest and principal on the Class B notes and the Class C notes. *See "RISK FACTORS—Subordination of the Class C Notes and the Class B Notes and Sequential Payment of the Class A Notes May Result in a Greater Risk of Loss"* in this offering memorandum. Nonetheless, the transaction has been structured, taking into consideration the interest rate that will accrue on the Class A notes and the student loans that we intend to acquire under the indenture, to achieve a rating on the Class B notes of at least "Aa2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's and a rating on the Class C notes of at least "B3" by Moody's Investors Service, Inc., at least "B-" by Standard & Poor's or at least by "B-" Fitch Ratings. It is a condition to the sale of the Class B notes and the Class C notes that they receive such ratings, in addition to meeting the structural descriptions provided herein. *See "RATINGS"* in this offering memorandum.

**The Class A Notes**

***Distributions of Interest***. Interest will accrue on the principal balances of the Class A notes at their respective interest rates. Interest will accrue during each accrual period and will be payable pro rata to the Class A noteholders entitled to distributions on each distribution date based upon the total amount of interest then due on each such series of Class A notes. Interest accrued on any series of Class A notes as of any distribution date but not paid on that distribution date will be due on the next distribution date together with an amount equal to interest on the unpaid amount at the interest rate borne by that series of Class A notes. Interest payments to the Class A noteholders and payments to the counterparty under a derivative product payable on a parity with the Class A notes entitled to distributions on any distribution date will generally be funded from Available Funds remaining after the distribution of the monthly issuer fees; and if necessary, from amounts on deposit in the capitalized interest account and from amounts on deposit in the reserve account. *See* "*—Allocations and Distributions*" and "*CREDIT ENHANCEMENT*" in this offering memorandum. If these sources are insufficient to pay the Class A Noteholders' Interest Distribution Amount on that distribution date and the amount payable by the issuer on that distribution date under any derivative product payable on a parity with the Class A notes as scheduled payments and as certain termination payments, the shortfall will be allocated pro rata to the Class A noteholders and the counterparty entitled to distributions on that distribution date, based upon the total amount of interest then payable on each series of Class A notes entitled to distributions on that distribution date and the total amount of scheduled payments and certain termination payments payable by the issuer on that distribution date under any derivative product.

***Distributions of Principal***. Principal payments will be made to the Class A noteholders on each distribution date in an amount generally equal to the Principal Distribution Amount, until the outstanding principal amount of each series of the Class A notes is reduced to zero. Principal payments on the Class A notes will generally be funded from Available Funds and the other sources of funds available for payments of principal described in this offering memorandum (subject to all prior required distributions). *See "—Allocations and Distributions"* in this offering memorandum.

Amounts on deposit in the reserve account, other than amounts in excess of the Reserve Account Requirement, will not be available to make principal payments on the Class A notes except at maturity of the applicable series of notes.

Principal payments will be applied on each distribution date in the priorities set forth under *"—Allocations and Distributions"* below.

However, notwithstanding any other provision to the contrary, following the occurrence of an event of default and an acceleration of the notes, principal payments on the Class A notes will be made pro rata, without preference or priority.

The aggregate outstanding principal amount of each series of Class A notes will be due and payable in full on its maturity date. The actual date on which the aggregate outstanding principal and accrued interest of a series of Class A notes is paid may be earlier than its maturity date, based on a variety of factors as described in this offering memorandum under *"RISK FACTORS—You Will Bear Prepayment and Extension Risk Due to Actions Taken by Individual Borrowers and Other Variables Beyond Our Control"*.

**The Class B Notes**

***Distributions of Interest***. Interest will accrue on the principal balances of the Class B notes at the Class B interest rate. Interest will accrue during each accrual period and will be payable to the Class B noteholders on each distribution date. Interest accrued as of any distribution date but not paid on that distribution date will be due on the next distribution date, together with an amount equal to interest on the unpaid amount at the Class B interest rate. Interest payments on the Class B notes for any distribution date will generally be funded from Available Funds and the other sources of funds available for payment described in this offering memorandum (subject to all prior required distributions). *See* "*—Allocations and Distributions*", "*—The Class B Notes—Subordination of the Class B Notes*" and "*CREDIT ENHANCEMENT*" in this offering memorandum.

***Distributions of Principal***. Principal payments will be made to the Class B noteholders on each distribution date in an amount generally equal to the Principal Distribution Amount remaining on each such distribution date after the principal amount of

each of the Class A notes has been reduced to zero. Principal payable on any distribution date will generally be funded from Available Funds and the other sources of funds available for payment described in this offering memorandum (subject to all prior required distributions). Amounts on deposit in the reserve account (other than amounts in excess of the Reserve Account Requirement) will not be available to make principal payments on the Class B notes except at their maturity. *See "—Allocations and Distributions*" and "*CREDIT ENHANCEMENT*" in this offering memorandum.

The outstanding principal amount of the Class B notes will be due and payable in full on the Class B maturity date. The actual date on which the final distribution on the Class B notes will be made may be earlier than the Class B maturity date, however, based on a variety of factors as described in this offering memorandum under *"RISK FACTORS—You Will Bear Prepayment and Extension Risk Due to Actions Taken by Individual Borrowers and Other Variables Beyond Our Control"*.

***Subordination of the Class B Notes***. On any distribution date, distributions of interest on the Class B notes will be subordinate to the payment of interest on the Class A notes and, if a Class B Interest Subordination Condition is in effect, to the payment of principal on the Class A notes. On any distribution date, principal payments on the Class B notes will be subordinate to the payment of both interest and principal on the Class A notes.

Consequently, on any distribution date, Available Funds, amounts on deposit in the reserve account and, through the _____ 20___ distribution date, amounts on deposit in the capitalized interest account will be applied to the payment of interest on the Class A notes prior to any payment of interest on the Class B notes, and no payments of the principal amount of the Class B notes will be made on any distribution date until the outstanding principal amount of each of the Class A notes has been reduced to zero.

Notwithstanding the foregoing, if (1) a Class B Interest Subordination Condition is in effect, or (2) an event of default relating to payment or bankruptcy under the indenture affecting the Class A notes has occurred and is continuing, then, until the conditions described in (1) or (2) above no longer exist, the amounts on deposit in the collection account, the capitalized interest account and the reserve account will be applied on that distribution date to the payment of the interest on and principal of any outstanding Class A notes before any amounts are applied to the payment of the interest on or principal of any Class B notes. As long as any Class A notes are outstanding, the failure to pay interest on any Class B notes will not constitute an event of default under the indenture.

Class B Interest Subordination Condition means, if after giving effect to all required distributions of principal and interest on the notes on any distribution date, the sum of the outstanding principal balance of the student loans held in the trust estate, plus accrued but unpaid interest thereon as of the last day of the related collection period, and amounts then on deposit in the reserve account and the capitalized interest account as of that distribution date, would be less than the outstanding principal amount of the Class A notes.

**The Class C Notes**

***Distributions of Interest and Principal***. Interest will accrue on the principal balances of the Class C notes at the Class C interest rate. Interest will accrue during each accrual period and will be payable to the Class C noteholders on each distribution date. Interest accrued as of any distribution date but not paid on that distribution date will be due on the next distribution date, together with an amount equal to interest on the unpaid amount at the Class C interest rate. For any distribution date, interest on the Class C notes will only be made to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under *"DESCRIPTION OF THE NOTES—Allocations and Distributions"*.

Principal payments will only be made to the Class C noteholders on any distribution date to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under *"DESCRIPTION OF THE NOTES—Allocations and Distributions"*. The outstanding principal amount of the Class C notes will be due and payable in full on the Class C maturity date.

***Subordination of the Class C Notes***. On any distribution date, payments of interest and principal on the Class C notes will be subordinate to the payment of interest and required principal payments on the Class A notes and the Class B notes. For any distribution date, interest and principal payments on the Class C notes will only be made to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under *"—Allocations and Distributions"*. Generally, no amounts will be paid to the Class C notes unless the Overcollateralization Amount with respect to that distribution date is at least equal to Specified Overcollateralization Amount, the amount on deposit in the reserve account is equal to the Reserve Account Requirement and there are Available Funds remaining after all prior required distributions. *See "CREDIT ENHANCEMENT—Overcollateralization Amount"* in this offering memorandum. Also see "*RISK FACTORS—The Class C notes will not provide regular or predictable payments of interest and principal*" in this offering memorandum.

While the Class A notes and the Class B notes are outstanding, the Class C notes may receive payments of interest and principal on any distribution date to the extent that there are Available Funds remaining after all prior required distributions as described in this offering memorandum under "*—Allocations and Distributions*".

As long as any Class A notes or Class B notes are outstanding, the failure to pay interest on any Class C notes will not constitute an event of default under the indenture.

**Determination of LIBOR**

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

LIBOR, for any accrual period, will be the London interbank offered rate for deposits in U.S. Dollars having the specified maturity commencing on the first day of the accrual period, as that rate appears on the Reuters LIBOR01 Page, or another page of this or any other financial reporting service in general use in the financial services industry, as of 11:00 a.m., London time, on the related LIBOR Determination Date. If no rate is so reported on the related LIBOR Determination Date, the rate for that day will be determined on the basis of the rates at which deposits in U.S. Dollars, having the specified maturity and in a principal amount of not less than U.S. $1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR Determination Date, to prime banks in the London interbank market by the Reference Banks. The indenture trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference Banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the indenture trustee, at approximately 11:00 a.m., New York time, on that LIBOR Determination Date, for loans in U.S. Dollars to leading European banks having the specified maturity and in a principal amount of not less than U.S. $1,000,000. If the banks selected as described above are not providing quotations, LIBOR in effect for the applicable accrual period will be LIBOR for the specified maturity in effect for the previous accrual period.

For this purpose:

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

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

**Book-entry Registration**

Investors acquiring beneficial ownership interests in the notes issued in book-entry form will hold their notes through The Depository Trust Company in the United States, or Clearstream, Luxembourg or Euroclear (in Europe) if they are participants of these systems, or indirectly through organizations that are participants in these systems. Book-entry notes will be issued in one or more instruments that equal the aggregate principal balance of the notes and will initially be registered in the name of Cede & Co., the nominee of The Depository Trust Company. Clearstream, Luxembourg and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's name on the books of its respective depositary, which in turn will hold positions in customers' securities accounts in such depositary's name on the books of The Depository Trust Company.

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the notes. The notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered note certificate will be issued for each series of the notes, each in the aggregate principal amount of such series, 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, as amended. In accordance with its normal procedures, DTC is expected to record the positions held by each of its participants in notes issued in book-entry form, whether held for its own account or as nominee for another person. In general, beneficial ownership of book-entry notes will be subject to the rules, regulations and procedures governing DTC and its participants as in effect from time to time.

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

To facilitate subsequent transfers, all of the notes deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the notes; DTC's records reflect only the identity of the direct participants to whose accounts the notes 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.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to notes. Under its usual procedures, DTC mails an omnibus proxy to the issuer, or the indenture trustee, as appropriate, as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the notes are credited on the record date.

Principal and interest payments on the notes will be made to DTC. DTC's practice is to credit direct participants' accounts on the due 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 the due date. Payments by participants to beneficial owners are 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 the participant and not of DTC, the indenture trustee or the issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the issuer, or indenture trustee. Disbursement of such payments to direct participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners will be the responsibility of direct and indirect participants.

DTC may discontinue providing its services as securities depository with respect to the notes at any time by giving reasonable notice to the issuer or the indenture trustee. In the event that a successor securities depository is not obtained, note certificates are required to be printed and delivered.

Clearstream Banking, société anonyme, Luxembourg, formerly Cedelbank ("Clearstream, Luxembourg"), has advised that it is incorporated under the laws of the Grand Duchy of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its participating organizations. Clearstream, Luxembourg facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg participants through electronic book-entry changes in accounts of Clearstream, Luxembourg participants, thereby eliminating the need for physical movement of certificates. Clearstream, Luxembourg provides to its Clearstream, Luxembourg participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (the "CSSF"). Clearstream, Luxembourg participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant, either directly or indirectly.

Euroclear has advised that it was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./NV (the "Euroclear operator"), under contract with Euroclear Clearance Systems S.C., a Belgian cooperative corporation. All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not the cooperative. The cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, central banks, securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator has advised that it is licensed by the Belgian Banking and Finance Commission to carry out banking activities on a global basis. As a Belgian Bank, it is regulated by the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System and applicable Belgian law. The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to notes held through Clearstream, Luxembourg or Euroclear will be credited to the cash accounts of Clearstream, Luxembourg participants or Euroclear participants in accordance with the relevant system's rules and procedures, to the extent received by its depositary. Those distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream, Luxembourg or the Euroclear operator, as the case may be, will take any other action permitted to be taken by a noteholder under the indenture on behalf of a Clearstream, Luxembourg participant or Euroclear participant only in accordance with the relevant rules and procedures and subject to the relevant Depositary's ability to effect such actions on its behalf through The Depository Trust Company.

Noteholders may hold their notes in the United States through The Depository Trust Company or in Europe through Clearstream, Luxembourg or Euroclear if they are participants of such systems, or indirectly through organizations which are participants in such systems.

Transfers between participants will occur in accordance with The Depository Trust Company Rules. Transfers between Clearstream, Luxembourg participants and Euroclear participants will occur in accordance with their respective rules and operating procedures.

Because of time-zone differences, credits of securities received in Clearstream, Luxembourg or Euroclear as a result of a transaction with a participant will be made during subsequent securities settlement processing and dated the business day following The Depository Trust Company settlement date. Such credits or any transactions in such securities settled during such processing will be reported to the relevant Euroclear or Clearstream, Luxembourg participants on such business day. Cash received in Clearstream, Luxembourg or Euroclear as a result of sales of securities by or through a Clearstream, Luxembourg participant or Euroclear participant to a participant will be received with value on The Depository Trust Company settlement date but will be available in the relevant Clearstream, Luxembourg or Euroclear cash account only as of the business day following settlement in The Depository Trust Company.

Cross-market transfers between persons holding directly or indirectly through The Depository Trust Company, on the one hand, and directly or indirectly through Clearstream, Luxembourg participants or Euroclear participants, on the other, will be effected in The Depository Trust Company in accordance with The Depository Trust Company Rules on behalf of the relevant European international clearing system by its depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to its depositary to take action to effect final settlement on its behalf by delivering or receiving securities in The Depository Trust Company, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to The Depository Trust Company. Clearstream, Luxembourg participants and Euroclear participants may not deliver instructions to the depositaries.

The Depository Trust Company has advised us that it will take any action permitted to be taken by a noteholder under the indenture only at the direction of one or more participants to whose accounts with The Depository Trust Company the notes are credited. Clearstream, Luxembourg or Euroclear will take any action permitted to be taken by a noteholder under the indenture on

behalf of a participant only in accordance with their relevant rules and procedures and subject to the ability of the relevant depositary to effect these actions on its behalf through The Depository Trust Company.

Although The Depository Trust Company, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the notes among participants of The Depository Trust Company, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

None of the issuer, the master servicer, any subservicers, the indenture trustee or the underwriters will have any responsibility or obligation to any The Depository Trust Company participants, Clearstream, Luxembourg participants or Euroclear participants or the persons for whom they act as nominees with respect to:

- the accuracy of any records maintained by The Depository Trust Company, Clearstream, Luxembourg or Euroclear or any participant;
- the payment by The Depository Trust Company, Clearstream, Luxembourg or Euroclear or any participant of any amount due to any beneficial owner in respect of the principal amount or interest on any notes;
- the delivery by any The Depository Trust Company participant, Clearstream, Luxembourg participant or Euroclear participant of any notice to any beneficial owner which is required or permitted under the terms of the indenture to be given to noteholders; or
- any other action taken by The Depository Trust Company as the noteholder.

Subject to The Depository Trust Company rules, the issuer will have the right to discontinue use of the system of book-entry transfers through The Depository Trust Company or a successor securities depository. In that event, note certificates will be required to be printed and delivered.

**Accounts**

The indenture trustee will establish and maintain under the indenture the acquisition account, the collection account, the reserve account, the capitalized interest account and the distribution account on behalf of the noteholders.

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

**Monthly Issuer Fees**

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

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

The contracts with each subservicer provide for monthly fees for the servicing of student loans according to schedules set forth in each subservicing agreement. The fees are charged on a per loan basis and the fees are generally subject to increases upon prior written notice under each subservicing agreement. We have estimated the subservicing fees will not exceed 0.90% per annum of the principal balance of the student loans through December, 2026.

We have estimated the fees of the indenture trustee and the eligible lender trustee to aggregate to an amount not to exceed 0.0115% per annum of the principal amount of notes outstanding.

We have estimated the amount of the fees of the back-up master servicer at $36,000 per annum. We have estimated the annual surveillance fees of the rating agencies at an amount not to exceed $7,500 per annum.

We have estimated the fees required to be paid to a third party vender appointed by the issuer to calculate, prepare, file and provide each noteholder and the residual certificateholder such information as may be required by the Internal Revenue Code at an amount not to exceed $30,000 per annum.

The issuer will covenant in the indenture that the amount of all fees and expenses paid under the indenture prior to distributions of principal and interest on the notes will not exceed the aggregate amount of program expenses set forth in the closing cash flows; provided, however, the amount of program expenses paid under the indenture may be increased at any time if the indenture trustee has received confirmation from each rating agency then rating any of our outstanding notes that its rating(s) of the outstanding notes will not be reduced or withdrawn as a result of such increase.

**Administration Fee**

The master servicer will receive an administration fee equal to 0.15% per annum of the average monthly outstanding principal balance of student loans held in the trust estate. The administration fee may also include specified amounts payable to the master servicer for tasks it performs. The administrative fee payable to the master servicer does not include any fees or other amounts due to other third parties. The administration fee may be increased if the indenture trustee has received confirmation from each rating agency then rating any of the outstanding notes that its then-current rating(s) of those notes will not be reduced or withdrawn as a result of such increase.

The fees of each subservicer shall be paid on each monthly expense payment date as discussed under "*—Allocations and Distributions—Distributions*".

**Allocations and Distributions**

***Deposits to Collection Account***. On or about the business day immediately prior to each distribution date, the master servicer will provide the indenture trustee with certain information as to the preceding collection period, including the amount of Available Funds received from the student loans held under the indenture and the aggregate purchase amount of the student loans held under the indenture to be purchased by the issuer or the master servicer.

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

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

- *first*, deposit into the distribution account for the Secretary of Education, (i) an amount equal to the monthly rebate fee payable to the Secretary of Education expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as further described under *"—Distributions"* and (ii) an amount equal to any required repayments to the Secretary of Education, if any, resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, expected to be payable from the 25$^{th}$ day of the current calendar month to the 24$^{th}$ day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts as described under *"—Distributions";*

- *second*, deposit into the distribution account for any guarantee agency, pro rata, an amount equal to payments required to be made with respect to any FFELP loans under the applicable guarantee agreement and the Higher Education Act expected to be payable from the 25$^{th}$ day of the current calendar month to the 24$^{th}$ day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;

- *third*, deposit into the distribution account for each subservicer, pro rata, an amount equal to their fees expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;

- *fourth*, deposit into the distribution account for the indenture trustee, the eligible lender trustee, the back-up master servicer and each rating agency, pro rata, an amount equal to their fees expected to be payable from the 25th day of

the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts;

- *fifth*, deposit into the distribution account for the master servicer, the amounts of the administration fee expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts; and

- *sixth*, deposit into the distribution account for the master servicer, the amounts required to be remitted to any third party vendor appointed by the issuer to pay the fees and expense necessary to calculate, prepare, file and provide to each noteholder and the residual certificateholder, such information as may be required by the Internal Revenue Code expected to be payable from the 25th day of the current calendar month to the 24th day of the subsequent calendar month plus previously accrued and unpaid or set aside amounts.

***Distributions***. On each monthly expense payment date, the indenture trustee will pay the following fees from amounts on deposit in the distribution account and allocated to the payment of those fees, and to the extent of any insufficiency, from amounts on deposit in the collection account: (i) the monthly rebate fee to the Secretary of Education at an annualized rate generally equal to 1.05% on principal of and interest on Federal Consolidation Loans described under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Fees—Rebate Fee on Federal Consolidation Loans*" in this offering memorandum and any required repayment to the Secretary of Education resulting when applicable interest rates on certain student loans exceed the special allowance support level applicable to such loans, as described in this offering memorandum under "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM—Recapture of Excess Interest*", (ii) pro rata, the amounts payable to any guarantee agency with respect to the FFELP loans, (iii) pro rata, the fees of each subservicer, (iv) pro rata, the fees of the indenture trustee, the eligible lender trustee, the back-up master servicer and each rating agency, (v) the administration fees of the master servicer, and (vi) the amounts required to be paid to any third party vendor appointed by the issuer for the purpose of calculating, preparing, filing and providing to each noteholder and the residual certificateholder such information as may be required by the Internal Revenue Code.

On each distribution date, the indenture trustee will make the deposits and distributions set forth below, in the amounts and in the order of priority shown below, except as otherwise provided in this offering memorandum under "*DESCRIPTION OF THE NOTES—The Class B Notes—Subordination of the Class B Notes*". These deposits and distributions will be made from and to the extent of the Available Funds on that distribution date after payment of the fees set forth in the immediately preceding paragraph; from amounts transferred from the capitalized interest account with respect to clauses (a) and (b) (or only clause (a) if a Class B Subordination Condition is in effect) below on that distribution date; and from amounts transferred from the reserve account with respect to clauses (a) and (b) (or only clause (a) if a Class B Subordination Condition is in effect) below on that distribution date and with respect to the payment of principal on the Class A notes and Class B notes at their final maturities:

(a) Pro rata, based on the total of (i) the amount of interest payable by the issuer based on the aggregate principal balance of the Class A notes entitled to distributions on this date and (ii) the amount payable by the issuer to the counterparty under any derivative product payable on a parity with those Class A notes as scheduled payments and as certain termination payments:

  (1) to the Class A notes, the Class A Noteholders' Interest Distribution Amount, pro rata, based on the amounts payable as Class A Noteholders' Interest Distribution Amount, and

  (2) to the counterparty under any derivative product payable on a parity with the Class A notes, the amount payable by the issuer as scheduled payments and as certain termination payments specified in the schedule to any derivative product;

(b) if the Class B Interest Subordination Condition is not in effect, to the Class B noteholders, the Class B Noteholders' Interest Distribution Amount;

(c) sequentially, to the series 2008A-1, series 2008A-2, series 2008A-3, series 2008A-4 and series 2008A-5 noteholders, in that order, until the outstanding principal amount of each such series is reduced to zero, the Principal Distribution Amount;

(d) if the Class B Interest Subordination Condition is in effect, to the Class B noteholders, the Class B Noteholders' Interest Distribution Amount;

(e) to the Class B noteholders, until the outstanding principal amount of the Class B notes is reduced to zero, any remaining Principal Distribution Amount;

(f) to the reserve account, the amount, if any, necessary to reinstate the balance of the reserve account to the Reserve Account Requirement;

(g) any remaining amounts after application of the preceding clauses, to the Class C noteholders, the Class C Noteholders' Interest Distribution Amount;

(h) any remaining amounts after application of the preceding clauses, to the Class C noteholders, the payment of principal on the Class C notes until the outstanding amount of Class C notes is reduced to zero;

(i) based on the amount of any termination payments due pursuant to this clause, to the counterparty under any derivative product payable on a parity with the Class A notes, the amount of any termination payments due and payable by the issuer and not payable in clause (a), above;

(j) to any subservicer, the indenture trustee, the eligible lender trustee, the back-up master servicer, the master servicer, ratably, for all amounts due to each and not previously paid; and

(k) to the residual certificateholder, any remaining amounts after application of the preceding clauses.

Notwithstanding the foregoing, in the event the student loans held under the indenture are not sold as described in this offering memorandum under *"—Optional Purchase"* or *"—Auction of Student Loans"*, on each subsequent distribution date on which the Pool Balance is equal to 10% or less of the Initial Pool Balance, the indenture trustee will distribute as accelerated payments of principal on the Class A notes and the Class B notes all amounts that would otherwise be paid to the holders of the Class C notes, the counterparty under any derivative product as certain termination payments that are due, any subservicer, the indenture trustee, the eligible lender trustee, the back-up master servicer, the master servicer, ratably, for all amounts due to each and not previously paid, or the residual certificateholder as provided in parts (g), (h), (i), (j) and (k) above.

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

Any amounts transfers from the collection account to the residual certificateholder as provided in part (j) above will be released from the lien of the indenture and will not be available on subsequent distribution dates to make payments on any series of the notes. The issuer will be the residual certificateholder on the closing date.

**Voting Rights and Remedies**

Noteholders will have the voting rights and remedies described in this offering memorandum. *See "DESCRIPTION OF THE INDENTURE—Remedies on Default"* in this offering memorandum.

**Optional Purchase**

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

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

- reduce the outstanding principal amount of each series of notes then outstanding on the related distribution date to zero;
- pay to noteholders the interest payable on the related distribution date;
- pay any unpaid monthly issuer fees as described in this offering memorandum under *"—Monthly Issuer Fees"* on the related distribution date; and
- pay all amounts due to the counterparty under any derivative product.

**Auction of the Student Loans**

The indenture trustee will offer for sale by auction all remaining student loans following the distribution date when the Pool Balance is 10% or less of the Initial Pool Balance. The auction date will be the 3rd business day before the next distribution date. An auction will occur only if the issuer has first waived its optional purchase right. The issuer will waive its option to purchase the remaining student loans if it fails to notify the eligible lender trustee and the indenture trustee, in writing, that it intends to exercise its purchase option before the indenture trustee accepts a bid to purchase the student loans. The issuer, the master servicer, any entity managed by the master servicer, and unrelated third parties may offer bids to purchase the student loans. The issuer, the master servicer or any entity managed by the master servicer may not submit a bid representing greater than fair market value of the student loans.

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

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

If the sale is not completed, the indenture trustee may, but will not be under any obligation to, solicit bids for sale of the student loans after future collection periods upon terms similar to those described above, including the issuer's waiver of its option to purchase remaining student loans.

If the student loans are not sold as described above, on each subsequent distribution date on which the Pool Balance is equal to 10% or less of the Initial Pool Balance, the indenture trustee will distribute as accelerated payments of principal on the Class A notes and the Class B notes all amounts that would otherwise be paid to (i) the holders of the Class C notes, (ii) the counterparty under any derivative product certain termination payments that are due, (iii) the indenture trustee, the eligible lender trustee, the back-up master servicer or the master servicer the amount, if any, due to each not previously paid, or (iv) the residual certificateholder and amounts on deposit in the reserve account in excess of the Reserve Account Requirement. *See "—Allocations and Distributions—Distributions"* in this offering memorandum.

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

The rate of payment of principal of the notes and the yield on the notes will be affected by prepayments on the student loans held in the trust estate that may occur as described below. Therefore, payments on the notes could occur significantly earlier than expected. Consequently, the actual maturities on the notes could be significantly earlier, average lives of the notes could be significantly shorter, and periodic balances could be significantly lower, than expected. Each student loan is prepayable in whole or in part, without penalty, by the borrowers at any time, or as a result of a borrower's default, death, disability or bankruptcy and subsequent liquidation or collection of guarantee payments with respect thereto. The rate of those prepayments cannot be predicted and may be influenced by a variety of economic, social, competitive and other factors, including as described below. In general, the rate of prepayments may tend to increase to the extent that alternative financing becomes available on more favorable terms or at interest rates significantly below the interest rates applicable to the student loans. Prepayments could increase as a result of certain borrower incentive programs, among other factors.

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

The rate of prepayments on the student loans cannot be predicted due to a variety of factors, some of which are described above, and any reinvestment risks resulting from a faster or slower incidence of prepayment of student loans will be borne entirely by the noteholders. Such reinvestment risks may include the risk that interest rates and the relevant spreads above particular interest rate

indices are lower at the time noteholders receive payments from the issuer than those interest rates and those spreads would otherwise have been if those prepayments had not been made or had those prepayments been made at a different time.

The projected weighted average life, expected maturity date and percentages of remaining principal amount of each series of Class A notes under various assumed prepayment scenarios will be included under "*Prepayments, Extensions, Weighted Average Lives and Expected Maturities of the Class A Notes*" to be included as an exhibit to the term sheet to be distributed to potential investors prior to the pricing of this transaction.

The projected weighted average life of the Class B notes is 13.50 years. The projected weighted average life of the Class C notes is 8 years. The initial principal amount of the Class B notes is not expected to be greater than 5% of the initial principal amount of all of the notes, and the initial principal amount of the Class C notes is not expected to be greater than 10% of the initial principal amount of all of the notes.

Each weighted average life indicated above was computed based on an assumed 12% Constant Prepayment Rate (CPR) for Stafford/PLUS loans and a consolidation loan prepayment ramp (CLR) at a graduated level from 0% to 8% over the first 120 months and at 8% thereafter (adjusted for seasoning) for consolidation loans and other normalized assumptions. The assumptions set forth in the foregoing do not necessarily reflect historical performance and defaults and do not constitute a representation or warranty that events will occur as assumed. If different assumptions were applied, different expected weighted average life calculations would result.

## CREDIT ENHANCEMENT

### Excess Interest

Excess interest is created when interest collections received on the student loans held in the trust estate during a collection period and related investment earnings exceed the interest on the notes at the related note interest rates and certain fees and expenses of the issuer. Excess interest with respect to the student loans is intended to provide "first loss" protection for the notes. Excess interest (as part of all interest collections) will be collected and deposited into the collection account and will become part of the Available Funds. There can be no assurance as to the rate, timing or amount, if any, of excess interest. The application of excess interest to the payment of principal on your notes will affect the weighted average life and yield on your investment. Excess interest not applied to make required distributions on any distribution date, and not deposited into the reserve account, will be paid to the residual certificateholder and will not be available on subsequent distribution dates to make payments on any series of the notes.

### Overcollateralization

Overcollateralization represents the amount by which the Pool Balance exceeds the outstanding principal amount of the Class A notes and the Class B notes. The amount of overcollateralization, if any, will vary from time to time depending on the rate and timing of the principal payments on the student loans, capitalization of interest and the occurrence of losses on the student loans. With respect to the Class A notes and the Class B notes, the overcollateralization will be available to absorb losses on the student loans that are not otherwise covered by amounts on deposit in the reserve account, the capitalized interest account or excess interest on the student loans, if any, and to cover shortfalls in interest on the Class A notes and the Class B notes that could result from the relatively low interest rate on the student loans on the one hand as compared to the interest rate on the notes and fees and expenses of the issuer on the other hand.

### Overcollateralization Amount

The Overcollateralization Amount represents the amount by which the Adjusted Pool Balance exceeds the outstanding principal amount of the Class A notes and the Class B notes. On the closing date, the initial Overcollateralization Amount will be equal to at least 0.01% of the Adjusted Pool Balance. The application of Available Funds described under "*—Allocations and Distributions"* above is designed to build the level of the Overcollateralization Amount to, and maintain it at, the Specified Overcollateralization Amount.

The Specified Overcollateralization Amount will be, with respect to any distribution date, an amount equal to a percentage of the Adjusted Pool Balance that is no greater than 5 percentage points higher than the initial Overcollateralization Amount, expressed as a percentage of the initial Adjusted Pool Balance on the closing date.

### Reserve Account

The indenture trustee will make a deposit from the net proceeds from the sale of the notes into the reserve account on the

closing date. The deposit will be in cash or eligible investments in an amount equal to the amount described in this offering memorandum under "*USE OF PROCEEDS*". Following this deposit, cash or eligible investments equal to the Reserve Account Requirement will be required to be maintained on deposit in the reserve account. The reserve account will be replenished on each distribution date, by deposit into it the amount, if any, necessary to reinstate the balance of the reserve account to the Reserve Account Requirement from the amount of Available Funds remaining after payment on that date under clauses (a) through (e) under *— Allocations and Distributions*".

If the market value of securities and cash in the reserve account on any distribution date is sufficient to pay the remaining principal amount of and interest accrued on the Class A notes and the Class B notes, these assets will be so applied on that distribution date.

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

Amounts held from time to time in the reserve account will continue to be held for the benefit of the Class A noteholders and the Class B noteholders. Funds will be withdrawn from cash in the reserve account on any distribution date to the extent that the amount of Available Funds and amounts on deposit in the capitalized interest account on that distribution date are insufficient to pay any of the items specified in clauses (a) and (b) (or only clause (a) if a Class B Interest Subordination Condition is in effect) under "*— Allocations and Distributions—Distributions*". These funds also will be withdrawn at maturity of a series of Class A notes or Class B notes or on the final distribution upon termination of the trust estate to the extent that the amount of Available Funds at that time is insufficient to pay any of the items specified in clauses (c) and (e) and, in the case of the final distribution upon termination of the trust estate, clauses (g) through (k) under "*—Allocations and Distributions—Distributions*". These funds will be paid from the reserve account to the persons and in the order of priority specified for distributions out of the collection account.

While any Class A notes and Class B notes are outstanding, the reserve account will not be available on any distribution date to cover any shortfall in payment of the Class C Noteholders' Interest Distribution Amount. If any Class A notes and Class B notes are outstanding, the reserve account will not be available on the maturity date for the Class C notes to cover shortfalls in payments of the Class C noteholders' principal and accrued interest.

The reserve account is intended to enhance the likelihood of timely distributions of interest to the Class A noteholders and the Class B noteholders and to decrease the likelihood that the noteholders will experience losses. In some circumstances, however, the reserve account could be reduced to zero. Amounts on deposit in the reserve account will be available to pay principal on the Class A notes and the Class B notes and accrued interest at the maturity of the Class A notes and the Class C notes and on the final distribution upon termination of the trust estate created under the indenture.

**Capitalized Interest Account**

The indenture trustee will make a deposit from the net proceeds from the sale of the into the capitalized interest account on the closing date. The deposit will be in cash or eligible investments in an amount equal to the amount described in this offering memorandum under "*USE OF PROCEEDS*". The initial deposit will not be replenished.

Amounts held from time to time in the capitalized interest account will be held for the benefit of the Class A Noteholders and the Class B Noteholders, as applicable. If, on any distribution date through the _____, 20___ distribution date, the amount of Available Funds is insufficient to pay any of the items specified in clauses (a) and (b) (or only clause (a) if a Class B Interest Subordination Condition is in effect) under "*—Allocations and Distributions*" above, amounts on deposit in the capitalized interest account on that distribution date will be withdrawn by the indenture trustee to cover those shortfalls, to the extent of funds on deposit therein, and will be allocated in the same order of priority shown under "*—Allocations and Distributions*" above. These funds will be paid from the capitalized interest account to the persons and in the order of priority specified for distributions out of the collection account. While any Class A notes and Class B notes are outstanding, the capitalized interest account will not be available to cover any shortfalls in payments of interest due to the Class C noteholders.

Funds on deposit in the capitalized interest account at the end of the collection periods listed in the table below in excess of the corresponding account balances will be transferred to the collection account and included in Available Funds on the following distribution date.

| Collection Period Ending | Account Balance |
|---|---|
| _____, 20___ | $_____ |
| _____, 20___ | $_____ |
| _____, 20___ | $_____ |
| _____, 20___ | $_____ |

All remaining funds on deposit in the capitalized interest account on the collection period ending on _____, 20___, after giving effect to all withdrawals from the account on or prior to that date, will be transferred to the collection account and included in Available Funds on the following distribution date.

The capitalized interest account is intended to enhance the likelihood of timely distributions of interest to the Class A and Class B noteholders through the _____ 20___ distribution date.

**Subordination of the Class B Notes**

On any distribution date, distributions of interest on the Class B notes will be subordinate to the payment of interest on the Class A notes and, if a Class B Interest Subordination Condition is in effect, to the payment of principal on the Class A notes. Distributions of principal on the Class B notes will be subordinate to the payment of both interest and principal on all of the Class A notes. *See "—The Class B Notes—Subordination of the Class B Notes"* in this offering memorandum.

**Subordination of the Class C Notes**

On any distribution date, distributions of both interest and principal on the Class C notes will be subordinate to the payment of interest and required principal payments on the Class A notes and the Class B notes. *See "—The Class C Notes—Subordination of the Class C Notes"* in this offering memorandum.

**Derivative Product Agreement**

The issuer may enter into a derivative product agreement with a counterparty on or about the closing date. We will not enter into a derivative product unless the indenture trustee has received a confirmation from each rating agency then rating any of our outstanding notes that the derivative product will not result in its rating(s) of those notes being reduced or withdrawn. The counterparty to any derivative product agreement that we enter into will be required to have a long term rating of at least "A2" by Moody's Investors Service, Inc. and will be required to have a short term rating of at least "A-1" or a long term rating of at least "A+" by Standard & Poor's.

## SECURITY AND SOURCES OF PAYMENT FOR THE NOTES

**General**

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

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

The provisions of the indenture generally will be for the equal benefit, protection and security of the holders of all of the notes issued thereunder. However, the Class A notes issued under the indenture will have priority over the Class B notes and the Class C notes issued thereunder and the Class B notes issued under the indenture will have priority over the Class C notes issued

thereunder. *See "DESCRIPTION OF THE NOTES—The Class B Notes—Subordination of the Class B Notes"* and *"DESCRIPTION OF THE NOTES—The Class C Notes—Subordination of the Class C Notes"* in this offering memorandum.

In addition, under the indenture, the issuer has assigned to the indenture trustee for the benefit of the noteholders all of the issuer's right, title and interest in the master servicing agreement, each subservicing agreement, each student loan purchase agreement, each subservicing agreement, each custodian agreement and each guarantee agreement.

## USE OF PROCEEDS

The proceeds of the sale of the Class A notes are expected to be $_____. Net proceeds from the sale of the Class A notes will be used as follows:

- Approximately $_____ will be deposited into the acquisition account, which will be used to pay costs of issuance of the notes and to acquire a pool of student loans as described in this offering memorandum under "*ACQUISITION OF THE STUDENT LOANS*";
- Approximately $_____ will be deposited into the reserve account, which amount will be equal to the Reserve Account Requirement; and
- Approximately $_____ will be deposited into the capitalized interest account.

The issuer is offering the Class B notes and the Class C notes as described in this offering memorandum under "*ACQUISITION OF THE STUDENT LOANS*."

## ACQUISITION OF THE STUDENT LOANS

Using the amounts deposited into acquisition account, we expect to pay costs of issuance of the notes, and to acquire a pool of student loans originated under the Federal Family Education Loan Program and the Health Education Assistance Loan Program on the closing date that had an aggregate outstanding principal balance due from borrowers, including accrued interest to be capitalized, of approximately $1,949,807,044 as of the statistical cut-off date pursuant to a student loan purchase agreement with each Seller. *See* "*CHARACTERISTICS OF THE STUDENT LOANS*" in this offering memorandum. After the purchase of student loans on the closing date, no additional loans will be acquired under the indenture (except for student loans that are required to be replaced or substituted as described in this offering memorandum under "*DESCRIPTION OF THE INDENTURE—Repurchase Obligation Requirements*" and "*DESCRIPTION OF THE INDENTURE—Priority of Liens*").

Pursuant to separate indentures of trust, each Seller has previously issued student loan asset-backed auction rate securities (and other securities) that are secured by the student loans that we expect to acquire. Under the terms of the student loan purchase agreements, the Sellers will agree to sell to us all of their rights, title and interest in the eligible student loans securing their outstanding securities issued under the separate indentures. As consideration for this sale, we will use a portion of the proceeds from the sale of the Class A notes to purchase and cancel or otherwise cause the redemption of all of the outstanding obligations issued by the Sellers that are secured by the student loans under the separate indentures of trust. We are offering the Class B notes and the Class C notes described in this offering memorandum to the holders of certain of those outstanding obligations issued by the Sellers in a private exchange offer as part of the consideration we will pay to purchase those obligations. The lien created under each applicable separate indenture of trust will be terminated and released on the date of the sale.

All collections and proceeds on the student loans on and after the purchase date will be deposited under the indenture. A description of the issuer and the issuer's purchase of the portfolio of student loans are provided in this offering memorandum. *See* "*THE ISSUER—Purchase of Student Loans"* in this offering memorandum.

Amounts remaining in the acquisition account (other than amounts necessary to pay costs of issuance of the notes), if any, on the second business day after the closing date, after giving effect to all withdrawals from the account on or prior to that date, will be transferred to the collection account. *See* "*DESCRIPTION OF THE NOTES—Allocations and Distributions—Acquisition Account*" in this offering memorandum.

The student loans to be acquired under the student loan purchase agreements are required to consist of either FFELP loans made under the Federal Family Education Loan Program or HEAL loans made under the Health Education Assistance Loan Program.

Each FFELP loan to be acquired is required to (i) be evidenced by a promissory note, (ii) be guaranteed or insured by a

guarantee agency under the Higher Education Act, (iii) bear interest at the applicable rate of interest permitted under the Higher Education Act (except with respect to any borrower incentive or other special program that provides for the reduction in interest as described in this offering memorandum under "*REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans*"), (iv) be eligible for special allowance payments, (v) be delinquent by no more than 180 days as of the Statistical Cut-Off Date, and (vi) not have been tendered at any time to either the Secretary of the Department of Education or any guarantee agency for payment unless the situation giving rise to such tender has been cured. *See* "*DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM*" in this offering memorandum.

Each HEAL loan to be acquired is required to (i) be evidenced by a promissory note, (ii) be insured by the Secretary of Health and Human Services under the Public Health Service Act, (iii) bear interest at the applicable rate of interest permitted under the Public Health Service Act (except with respect to any borrower incentive or other special program that provides for the reduction in interest as described in this offering memorandum under "*REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans*"), (iv) be delinquent by no more than 180 days as of the Statistical Cut-Off Date and (v) not have been tendered at any time to the Secretary of Health and Human Services for payment unless the situation giving rise to such tender has been cured. *See* "*DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM*" in this offering memorandum.

None of student loans as of the statistical cutoff date were subject to any prior obligation to sell that loan to a third party.

## CHARACTERISTICS OF THE STUDENT LOANS

The following tables provide a description of certain characteristics of the student loans expected to be acquired by the issuer as of the statistical cut-off date.

The aggregate outstanding principal balance of the student loans in each of the following tables includes the principal balance due from borrowers, including accrued interest to be capitalized, of approximately $1,949,807,044 as of the statistical cut-off date.

The student loans actually acquired with the proceeds of the notes on the closing date will have characteristics that differ somewhat from the characteristics of the student loans as of the statistical cut-off date due to payments received, other changes in these loans that occur during the period from the statistical cut-off date to the closing date, and the addition of student loans after the statistical cutoff date. As a consequence, the aggregate characteristics of the final pool of student loans may vary from those shown below; however, we do not believe that this variance will be material.

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

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

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

**The information set forth in this offering memorandum with respect to the portfolio of student loans that we intend to acquire is based upon the assumption that we acquire the eligible student loans that are pledged by the Sellers under specific separate indentures of trust previously established by the Sellers. The Sellers and certain other issuers of student loan asset-backed securities also have pledged separate portfolios of student loans under other indentures of trust that are not described in this offering memorandum that we may acquire. To the extent that we acquire the student loans that are pledged by the Sellers or other issuers under any of those other indentures of trust, we will circulate a supplement, amendment or new offering memorandum that will include updated information with respect to the portfolio of student loans that we will acquire.**

**Composition of the Student Loan Portfolio**
**as of the Statistical Cut-Off Date**

| | |
|---|---|
| Aggregate Outstanding Principal Balance | $1,949,807,044 |
| Number of Borrowers (1) | 162,675 |
| Average Outstanding Principal Balance Per Borrower | $11,986 |
| Number of Loans | 367,595 |
| Average Outstanding Principal Balance Per Loan | $5,304 |
| Weighted Average Remaining Term to Maturity (Months) (2) | 164 |
| Weighted Average Annual Borrower Interest Rate (3) | 4.62% |

(1) A single borrower can have more than one account if such borrower had different types of underlying FFELP loans with certain characteristics.

(2) We determined the weighted average remaining term to maturity shown in the table above from the statistical cut-off date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

(3) We determined the weighted average annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Interest Rate**
**as of the Statistical Cut-Off Date**

| Breakdown by Interest Rate (%) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 1.25 - 2.99 | $ 147,276,632 | 7.55 | 9,403 |
| 3.00 - 3.49 | 128,057,582 | 6.57 | 9,313 |
| 3.50 - 3.99 | 461,379,170 | 23.66 | 107,006 |
| 4.00 - 4.49 | 492,917,504 | 25.28 | 146,203 |
| 4.50 - 4.99 | 149,983,358 | 7.69 | 10,088 |
| 5.00 - 5.49 | 169,611,056 | 8.70 | 28,449 |
| 5.50 - 5.99 | 31,027,839 | 1.59 | 1,882 |
| 6.00 - 6.49 | 35,108,164 | 1.80 | 1,758 |
| 6.50 - 6.99 | 173,382,579 | 8.89 | 41,134 |
| 7.00 - 7.49 | 33,620,105 | 1.72 | 1,882 |
| 7.50 - 7.99 | 22,142,666 | 1.14 | 1,573 |
| 8.00 - 8.49 | 45,963,753 | 2.36 | 3,698 |
| 8.50 or greater | 59,336,635 | 3.04 | 5,206 |
| Total | $ 1,949,807,044 | 100.00 | 367,595 |

(1) We determined the annual borrower interest rate shown in the table above without including any special allowance payments or any rate reductions that may be earned by borrowers in the future.

**Distribution of the Student Loans by Loan Type**
**as of the Statistical Cut-Off Date**

| Breakdown by Loan Type | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Consolidation | $ | 914,611,121 | 46.91 | 56,013 |
| Heal | | 1,471,291 | 0.08 | 45 |
| PLUS/SLS | | 131,178,593 | 6.73 | 17,635 |
| Stafford | | 902,546,039 | 46.29 | 293,902 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

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

| Breakdown by Remaining Term (Months) | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 24 | $ | 81,636,144 | 4.19 | 43,715 |
| 25 - 36 | | 22,828,312 | 1.17 | 11,353 |
| 37 - 48 | | 25,800,393 | 1.32 | 11,354 |
| 49 - 60 | | 53,187,506 | 2.73 | 17,455 |
| 61 - 72 | | 50,073,864 | 2.57 | 17,143 |
| 73 - 84 | | 54,947,515 | 2.82 | 17,192 |
| 85 - 96 | | 99,441,592 | 5.10 | 26,379 |
| 97 - 108 | | 216,653,821 | 11.11 | 55,093 |
| 109 - 120 | | 484,679,414 | 24.86 | 120,599 |
| 121 - 132 | | 22,820,295 | 1.17 | 2,890 |
| 133 - 144 | | 27,768,811 | 1.42 | 3,225 |
| 145 - 156 | | 29,269,504 | 1.50 | 3,044 |
| 157 - 168 | | 40,365,695 | 2.07 | 4,199 |
| 169 - 180 | | 50,403,465 | 2.59 | 4,602 |
| 181 - 192 | | 27,076,204 | 1.39 | 2,000 |
| 193 - 220 | | 126,324,300 | 6.48 | 8,500 |
| 221 - 260 | | 141,156,490 | 7.24 | 7,723 |
| 261 - 300 | | 147,469,507 | 7.56 | 5,884 |
| 301 - 340 | | 103,381,643 | 5.30 | 2,406 |
| 341 or greater | | 144,522,572 | 7.41 | 2,839 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

(1) We determined the remaining term to maturity shown in the table above from the statistical cut-off date to the stated maturity date of the applicable student loan, including any current deferral or forbearance periods, but without giving effect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Status for All Loans | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Deferment | $ | 347,543,688 | 17.82 | 60,249 |
| Forbearance | | 207,834,112 | 10.66 | 34,202 |
| Grace | | 70,369,744 | 3.61 | 18,633 |
| Repayment | | 1,148,062,604 | 58.88 | 205,041 |
| School | | 175,996,897 | 9.03 | 49,470 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

**Distribution of the Student Loans by Number of Days of Delinquency**
**as of the Statistical Cut-Off Date**

| Breakdown by Days Delinquent | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| 0 - 30 | $ | 1,806,260,015 | 92.64 | 336,750 |
| 31 - 60 | | 59,422,689 | 3.05 | 11,641 |
| 61 - 90 | | 27,816,402 | 1.43 | 6,415 |
| 91 - 120 | | 24,080,097 | 1.23 | 5,270 |
| 121 - 150 | | 18,721,899 | 0.96 | 4,365 |
| 151 or greater | | 13,505,942 | 0.69 | 3,154 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

**Distribution of the Student Loans by Disbursement Date**
**as of the Statistical Cut-Off Date**

| Breakdown by Disbursement Buckets | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Before Oct. 1, 1993 | $ | 6,232,672 | 0.32 | 1,364 |
| Oct. 1, 1993 - Dec, 31, 1999 | | 121,704,421 | 6.24 | 36,655 |
| Jan. 1, 2000 - Jun. 30, 2006 | | 1,356,878,523 | 69.59 | 269,811 |
| Jul. 1, 2006 - Sep. 30, 2007 | | 458,782,435 | 23.53 | 58,889 |
| On or after Oct. 1, 2007 | | 6,208,992 | 0.32 | 876 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

**Distribution of the Student Loans by Guarantee Agency**
**as of the Statistical Cut-Off Date**

| Breakdown by Guarantee Agency | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| American Student Assistance (Massachusetts) | $ | 242,809,857 | 12.45 | 24,822 |
| California Student Aid Commission | | 108,509,072 | 5.57 | 34,993 |
| Great Lakes Higher Education Guaranty Corporation | | 155,940,317 | 8.00 | 15,754 |
| Kentucky Higher Education Assistance Authority | | 1,483,660 | 0.08 | 198 |
| Pennsylvania Higher Education Assistance Agency | | 837,140,477 | 42.93 | 128,083 |
| Texas Guaranteed Student Loan Corporation | | 255,236,159 | 13.09 | 79,115 |
| United Student Aid Funds | | 136,400,412 | 7.00 | 29,599 |
| Others | | 212,287,089 | 10.89 | 55,031 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

**Distribution of the Student Loans by Subservicer**
**as of the Statistical Cut-Off Date**

| Breakdown by Subservicer | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| ACS Commercial Education & Financial Services | $ | 690,551,062 | 35.42 | 155,295 |
| Chase Student Loan Servicing, LLC | | 58,564,839 | 3.00 | 5,443 |
| Great Lakes Educational Loan Services, Inc | | 122,943,143 | 6.31 | 12,841 |
| Pennsylvania Higher Education Assistance Agency | | 936,299,441 | 48.02 | 160,296 |
| Sallie Mae Servicing | | 141,448,559 | 7.25 | 33,720 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

**Distribution of the Student Loans by Borrower Payment Status**
**as of the Statistical Cut-Off Date**

| Breakdown by Subsidy Status | | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|---|
| Subsidized | $ | 913,778,047 | 46.87 | 207,525 |
| Unsubsidized | | 1,036,028,998 | 53.13 | 160,070 |
| Total | $ | 1,949,807,044 | 100.00 | 367,595 |

**Distribution of the Student Loans by Principal Balance**
**as of the Statistical Cut-Off Date**

| Breakdown by Current Balance ($) | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| 0.01 - 499.99 | $ 5,355,821 | 0.27 | 21,072 |
| 500.00 - 999.99 | 19,839,078 | 1.02 | 26,041 |
| 1,000.00 - 1,999.99 | 94,788,258 | 4.86 | 63,602 |
| 2,000.00 - 2,999.99 | 214,002,388 | 10.98 | 84,187 |
| 3,000.00 - 3,999.99 | 146,252,659 | 7.50 | 42,402 |
| 4,000.00 - 4,999.99 | 143,911,506 | 7.38 | 31,781 |
| 5,000.00 - 5,999.99 | 141,893,708 | 7.28 | 25,857 |
| 6,000.00 - 6,999.99 | 59,334,246 | 3.04 | 9,261 |
| 7,000.00 - 7,999.99 | 44,190,300 | 2.27 | 5,888 |
| 8,000.00 - 8,999.99 | 83,364,076 | 4.28 | 9,807 |
| 9,000.00 - 9,999.99 | 43,665,945 | 2.24 | 4,609 |
| 10,000.00 - 14,999.99 | 205,632,808 | 10.55 | 16,920 |
| 15,000.00 - 19,999.99 | 158,048,981 | 8.11 | 9,159 |
| 20,000.00 - 24,999.99 | 129,653,284 | 6.65 | 5,809 |
| 25,000.00 - 29,999.99 | 95,165,191 | 4.88 | 3,500 |
| 30,000.00 - 34,999.99 | 72,511,608 | 3.72 | 2,238 |
| 35,000.00 - 39,999.99 | 57,778,692 | 2.96 | 1,548 |
| 40,000.00 - 44,999.99 | 49,768,289 | 2.55 | 1,178 |
| 45,000.00 - 49,999.99 | 30,070,684 | 1.54 | 634 |
| 50,000.00 - 54,999.99 | 27,376,742 | 1.40 | 523 |
| 55,000.00 - 59,999.99 | 20,131,025 | 1.03 | 351 |
| 60,000.00 - 64,999.99 | 12,969,378 | 0.67 | 208 |
| 65,000.00 - 69,999.99 | 14,715,803 | 0.75 | 219 |
| 70,000.00 - 74,999.99 | 10,509,641 | 0.54 | 145 |
| 75,000.00 - 79,999.99 | 9,517,265 | 0.49 | 123 |
| 80,000.00 - 84,999.99 | 6,926,533 | 0.36 | 84 |
| 85,000.00 - 89,999.99 | 4,978,973 | 0.26 | 57 |
| 90,000.00 - 94,999.99 | 5,730,282 | 0.29 | 62 |
| 95,000.00 - 99,999.99 | 4,185,222 | 0.21 | 43 |
| 100,000.00 - 109,999.99 | 6,810,792 | 0.35 | 65 |
| 110,000.00 - 119,999.99 | 6,340,333 | 0.33 | 55 |
| 120,000.00 - 129,999.99 | 5,376,728 | 0.28 | 43 |
| 130,000.00 - 139,999.99 | 6,311,976 | 0.32 | 47 |
| 140,000.00 - 149,999.99 | 3,463,322 | 0.18 | 24 |
| 150,000.00 or greater | 9,235,510 | 0.47 | 53 |
| Total | $ 1,949,807,044 | 100.00 | 367,595 |

**Geographic Distribution of the Student Loans**
**as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Alabama | $ 10,706,339 | 0.55 | 1,312 |
| Alaska | 1,614,014 | 0.08 | 222 |
| Arizona | 17,180,415 | 0.88 | 2,309 |
| Arkansas | 8,497,909 | 0.44 | 1,485 |
| California | 207,966,479 | 10.67 | 42,386 |
| Colorado | 14,092,692 | 0.72 | 1,552 |
| Connecticut | 28,311,262 | 1.45 | 6,100 |
| Delaware | 8,841,841 | 0.45 | 2,119 |
| Florida | 54,589,111 | 2.80 | 8,313 |
| Georgia | 28,810,776 | 1.48 | 3,181 |
| Hawaii | 3,988,305 | 0.20 | 525 |
| Idaho | 3,693,692 | 0.19 | 449 |
| Illinois | 30,752,887 | 1.58 | 2,784 |
| Indiana | 10,960,650 | 0.56 | 1,028 |
| Iowa | 4,946,627 | 0.25 | 485 |
| Kansas | 7,938,079 | 0.41 | 1,281 |
| Kentucky | 12,845,813 | 0.66 | 1,292 |
| Louisiana | 26,172,472 | 1.34 | 6,083 |
| Maine | 5,873,002 | 0.30 | 1,210 |
| Maryland | 30,141,498 | 1.55 | 4,783 |
| Massachusetts | 53,656,635 | 2.75 | 12,394 |
| Michigan | 16,763,079 | 0.86 | 1,608 |
| Minnesota | 14,901,671 | 0.76 | 1,499 |
| Mississippi | 5,380,098 | 0.28 | 558 |
| Missouri | 19,632,395 | 1.01 | 3,322 |
| Montana | 2,147,238 | 0.11 | 257 |
| Nebraska | 3,566,176 | 0.18 | 442 |
| Nevada | 7,400,583 | 0.38 | 1,382 |
| New Hampshire | 7,066,767 | 0.36 | 1,181 |
| New Jersey | 62,130,236 | 3.19 | 10,791 |
| New Mexico | 6,328,285 | 0.32 | 940 |
| New York | 220,251,914 | 11.30 | 43,377 |
| North Carolina | 22,056,768 | 1.13 | 3,138 |
| North Dakota | 960,980 | 0.05 | 114 |
| Ohio | 49,036,316 | 2.51 | 5,973 |
| Oklahoma | 8,867,411 | 0.45 | 1,394 |
| Oregon | 16,254,599 | 0.83 | 1,779 |
| Pennsylvania | 260,878,489 | 13.38 | 64,547 |
| Rhode Island | 5,893,726 | 0.30 | 1,214 |
| South Carolina | 11,820,410 | 0.61 | 1,239 |
| South Dakota | 1,045,117 | 0.05 | 123 |
| Tennessee | 10,077,084 | 0.52 | 1,118 |
| Texas | 447,516,170 | 22.95 | 87,721 |
| Utah | 3,980,322 | 0.20 | 471 |
| Vermont | 2,533,897 | 0.13 | 303 |
| Virginia | 28,820,336 | 1.48 | 4,466 |
| Washington | 17,761,723 | 0.91 | 2,080 |
| West Virginia | 14,207,445 | 0.73 | 4,248 |
| Wisconsin | 25,261,485 | 1.30 | 3,755 |

**Geographic Distribution of the Student Loans**
**as of the Statistical Cut-Off Date**

| Breakdown by State | Current Balance | % Current Balance | Loan Count |
|---|---|---|---|
| Wyoming | 1,024,884 | 0.05 | 125 |
| Other | 84,660,943 | 4.34 | 17,137 |
| Total | $ 1,949,807,044 | 100.00 | 367,595 |

**Scheduled Weighted Average Remaining Months in Status of the Student Loans**
**as of the Statistical Cut-Off Date**

| | Scheduled Remaining Months in Status | | | | |
|---|---|---|---|---|---|
| Current Borrower Payment Status | School | Grace | Deferment | Forbearance | Repayment |
| School | 21.2 | 6.0 | - | - | 120.0 |
| Grace | - | 3.7 | - | - | 120.0 |
| Deferment | - | - | 8.5 | - | 182.8 |
| Forbearance | - | - | - | 1.9 | 183.7 |
| Repayment | - | - | - | - | 169.3 |

As of the statistical cut-off date, the weighted average spread, including special allowance payments, to the 91-day Treasury bill rate was 3.02%. As of the statistical cut-off date, the weighted average spread, including special allowance payments, to the three-month commercial paper rate was 2.50%. However, these weighted average spreads may be lower as a result of payment reduction on certain of our student loans due to participation in borrower incentive programs. *See* "*REGARDING THE STUDENT LOANS—Description of each Borrower Benefit Program Applicable to the Student Loans*" in this offering memorandum.

## REGARDING THE STUDENT LOANS

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

The student loans expected to be acquired with the proceeds of the notes will consist of student loans eligible for certain borrower incentive programs applicable to the student loans. Under those incentive programs, the interest rate on a student loan may be reduced by up to 2.5% upon disbursement, upon entering repayment, or after timely receipt (i.e., not less than 15 days delinquent) of the initial 12, 24, 30, 36, 48, or 60 payments from the borrower, depending on when the student loan was made and the principal amount of the student loan. This interest rate reduction is effective for as long as the borrower continues to make timely payments. Some borrowers who authorize automatic payment of their student loans from a checking or savings account receive an interest rate that is up to 2.50% less than the statutory rate. In addition, some borrowers may be eligible for a reduction in the principal amount of their loan of up to 4% upon disbursement, upon entering repayment, or after the timely receipt (i.e., not less than 15 days delinquent) of 3, 12, 24, 36, or 48 payments from the borrower.

### Description of Subservicers

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

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

The issuer expects that all of the student loans financed with the proceeds of the notes and held under the indenture will be serviced by one of the following subservicers: ACS Commercial Education & Financial Services (formerly ACS Education Services, Inc.), Chase Student Loan Servicing, LLC (formerly CFS-SunTech Servicing LLC), Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency and Sallie Mae Servicing.

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

**Custodians**

The issuer and the indenture trustee have entered into a custodian agreement with each of ACS Commercial Education & Financial Services (formerly ACS Education Services, Inc.), Chase Student Loan Servicing, LLC (formerly CFS-SunTech Servicing LLC), Great Lakes Educational Loan Services, Inc., Pennsylvania Higher Education Assistance Agency and Sallie Mae Servicing. Other entities also may enter into similar custodian agreements, but the issuer expects that each subservicer will serve as the custodian for the student loans it services.

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

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

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

***General.*** Each FFELP loan is required to be guaranteed as to principal and interest by a guarantee agency and reinsured by the United States Department of Education under the Higher Education Act and must be eligible for special allowance payments and, in the case of some FFELP loans, interest subsidy payments by the United States Department of Education. *See* "*DESCRIPTION OF THE GUARANTEE AGENCIES*" in this offering memorandum for greater detail relating to guarantee agencies under the Federal Family Education Loan Program. Each FFELP loan expected to be purchased with the proceeds of the notes will be guaranteed by one of the following guarantee agencies: Arizona Education Loan Program, Student Loan Guarantee Foundation of Arkansas, American Student Assistance (ASA), California Student Aid Commission (CSAC), College Access Network (Formerly Colorado Student Loan Program), Connecticut Student Loan Foundation, Education Assistance Corporation, Educational Credit Management Corporation (ECMC), Florida Office of Student Financial Assistance, Georgia Higher Education Assistance Corporation, Great Lakes Higher Education Guaranty Corporation, Illinois Student Assistance Commission, Kentucky Higher Education Assistance Authority (KHEAA), Louisiana Student Financial Assistance Commission (LOSFA), Finance Authority of Maine (FAME), Michigan Higher Education Assistance Agency, Missouri Department of Higher Education, National Student Loan Program (NSLP), New Hampshire Higher Education Assistance Foundation, New Jersey Higher Education Student Assistance Authority, New York State Higher Education Services Corporation, Northwest Education Loan Association (NELA), Oklahoma Guaranteed Student Loan Program, Pennsylvania Higher Education Assistance Agency (PHEAA), Rhode Island Higher Education Assistance Authority, State Student Assistance Commission, Tennessee Student Assistance Corporation, Texas Guaranteed Student Loan Corporation (TGSLC), United Student Aid Funds, Inc. (USAF), or Utah Higher Education Assistance Authority.

***Guarantee Agencies for the FFELP Loans***. Following the purchase of the student loans expected to be acquired with the note proceeds, each of American Student Assistance ("ASA"), California Student Aid Commission ("CSAC"), Great Lakes Higher Education Guaranty Corporation ("GLHEGC"), Pennsylvania Higher Education Assistance Agency ("PHEAA"), Texas Guaranteed Student Loan Corporation ("TGSLC") and United Student Aid Funds, Inc. ("USAF") (collectively, the "Significant Guarantors") will have guaranteed greater than five percent (5%) of all student loans held in the trust estate. *See* "*CHARACTERISTICS OF THE STUDENT LOANS — Distribution of the Student Loans by Guarantor as of the Statistical Cut-Off Date*" for a break-down of the percent of student loans guaranteed by each guarantee agency as of the statistical cut-off date.

See Appendix C to this offering memorandum for information concerning each Significant Guarantor.

## THE ISSUER

### General

The issuer is a nonprofit corporation organized in 2005 under the Texas Non-Profit Corporation Act. The issuer is located at 2600 Washington Avenue, P.O. Box 1308, Waco, Texas 76703, Telephone (254) 753-0915. The master servicer conducts and operates the business affairs of the issuer. *See* "*THE MASTER SERVICER*" in this offering memorandum.

The issuer is authorized to (i) provide funds for the acquisition of student loans which are either insured or guaranteed pursuant to the Higher Education Act or the Public Health Service Act, and (ii) provide procedures for the servicing of such student loans in accordance with the Higher Education Act and the Public Health Service Act, as applicable. The issuer's Articles of Incorporation provide that after payments of expenses, debt service and the creation of reserves for the same, all revenue shall be utilized for the purchase of student loans, or, upon dissolution of the issuer, paid to the Federal Government. The issuer's activities are governed by the Texas Non-Profit Corporation Act.

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

### Board of Directors

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

| Name | Principal Occupation | Term Expires[(1)] |
|---|---|---|
| Mrs. Joyce Packard<br>Chairman | High School Counselor, Waco Public Schools, Dean of Women and Supervisor of Student Teachers, Baylor University[(2)] (retired), Waco, Texas | January, 2010 |
| Bob Chambers<br>Vice Chairman | Chairman and Chief Executive Officer, Automatic Chef Company; Waco, Texas | January, 2010 |
| Wilton Lanning | Owner/Operator, Padgitts, Inc., (retired); Waco, Texas | January, 2009 |

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

(2) Eligible Institution.

### Purchase of Student Loans by the Issuer

Using the amounts deposited into acquisition account, we expect to acquire a pool of student loans originated under the Federal Family Education Loan Program and the Health Education Assistance Loan Program on the closing date pursuant to a student loan purchase agreement with each Seller. *See* "*CHARACTERISTICS OF THE STUDENT LOANS*" in this offering memorandum.

Pursuant to separate indentures of trust, each Seller has previously issued student loan asset-backed auction rate securities (and other securities) that are currently secured by the student loans that we expect to acquire. Under the terms of the student loan purchase agreements, the Sellers will agree to sell to us all of their rights, title and interest in the eligible student loans currently securing their outstanding securities issued under the separate indentures. As consideration for this sale, we will use a portion of the proceeds from the sale of the notes to purchase and cancel or otherwise cause the redemption of all of the outstanding obligations issued by the Sellers that are secured by the student loans under the separate indentures of trust. The lien created under each applicable separate indenture of trust will be terminated and released on the date of the sale. We are offering the Class B notes and the Class C notes described in this offering memorandum to the holders of certain of those outstanding obligations issued by the Sellers in a private exchange offer as part of the consideration we will pay to purchase those obligations. All collections and proceeds on the student loans on and after the purchase date will be deposited under the indenture.

Such student loan purchase agreements will contain representations, guarantees and warranties of the Sellers, including among others, that the student loans offered for sale to the issuer have been incurred and are in compliance with the Higher Education Act and the regulations thereunder and the Health Education Assistance Loan Program, as applicable.

Following the purchase of the student loans, the master servicer will be responsible for the servicing, collecting, accounting and reporting functions required under the Higher Education Act to preserve the guarantee of the guarantee agency, the insurance of the Secretary of the Department of Education and the insurance provided by the Secretary of Health and Human Services. The master servicer performs pre-origination servicing for lenders which wish to participate in this program, but most servicing duties relating to student loans held under the indenture will actually be performed by the subservicers.

**Student Loan Asset-Backed Notes**

The notes issued pursuant to this offering memorandum will be the first student loan asset-backed notes issued by the issuer. No other student loan asset-backed notes are permitted to be issued under the indenture. The issuer is permitted to issue additional student loan asset-backed notes secured under separate and distinct indentures of trust.

## THE MASTER SERVICER

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

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

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

As of July 31, 2008, the total number of student loan accounts serviced by the master servicer was approximately 1,881,657 aggregating approximately $15,393,203,000 in principal amount. All of such student loans are serviced by the master servicer for the issuer or for separate corporations managed by the master servicer and for several local banks who have committed to sell certain student loans to the issuer or one of the other corporations managed by the master servicer. The follow is a tabulation of all student loans serviced by the master servicer for the prior five years.

| Calendar Year (or Period) Ending | Number of Loans | Principal Amount |
|---|---|---|
| December 31, 2002 | 1,316,233 | 5,980,234,800 |
| December 31, 2003 | 1,361,889 | 7,692,124,938 |
| December 31, 2004 | 1,528,589 | 9,533,862,925 |
| December 31, 2005 | 1,602,251 | 11,001,762,707 |
| December 31, 2006 | 1,763,082 | 14,571,733,476 |
| December 31, 2007 | 2,005,653 | 15,607,861,899 |

Recognizing that the economics of the student loans industry were changing, the master servicer assessed its operations and options to determine what steps must be taken to allow it to continue to be a viable, quality master servicer of student loans going forward. As a result of this assessment, beginning in February 2008, the master servicer determined it in the best interest of the company to downsize and reduce its workforce. The downsizing has not and will not have a significant impact on the quality of services provided by the master servicer, but rather will allow the master servicer to provide an equal, if not better, quality of service in a more cost effective manner.

As of August 31, 2008, the master servicer had approximately 85 full time employees and 5 part time employees working at facilities in Mission Viejo, California, and Austin and Waco, Texas. The master servicer also has employees working in the States of Maryland, Massachusetts, and Virginia.

The master servicer has entered into a master servicing agreement with the issuer pursuant to which the master servicer will act as the agent for the issuer in connection with the administration, collection and servicing of student loans to be held under the indenture. Pursuant to the master servicing agreement, the duties to be performed by the master servicer include preparing and providing certain reports, orders and other documents to the issuer and/or the indenture trustee relating to student loans to be held under the indenture, acting as liaison for the issuer with college and university financial aid officers, lenders, students, parents and others regarding the issuer's student loan program, periodically reviewing investment practices of the issuer, pursuing a program of lender recruitment and a training program for schools participating in the issuer's student loan program (including preparation and distribution of a reference manual for schools) and preparing the appropriate student loan purchase agreements. Generally, payments received from borrowers, the Department of Education, the Secretary of Health and Human Services and investment providers are transferred directly to the indenture trustee and are not held or commingled with the funds of the master servicer. The master servicer also is authorized to enter into subservicing agreements with other entities in order to carry out the servicing, collecting, accounting and reporting obligations required by the Higher Education Act, the guarantee agencies, the Public health Service Act and the issuer. S*ee "REGARDING THE STUDENT LOANS—Description of the Subservicers"* and "*REGARDING THE STUDENT LOANS – Description of the Custodians*" in this offering memorandum. Generally, the issuer will indemnify the master servicer for any losses it incurs for acts it performs under the master servicing agreement except for its or its sub-agents' own negligence or for acts which were unauthorized or outside the scope of the master servicing agreement in which case the master servicer will indemnify the indenture trustee and the issuer for any losses they may incur; however, the master servicer has only limited resources from which it could satisfy this obligation.

Under the master servicing agreement, if there is any master servicer default that remains unremedied after notice and the passage of the cure period provided in the master servicing agreement, the issuer and the indenture trustee or holders of not less than two thirds of the principal amount of the highest priority obligations at the time outstanding may terminate all the rights and obligations of the master servicer under the master servicing agreement. As of the effective date of termination of the master servicer, all authority and power of the master servicer under the master servicing agreement, whether with respect to the notes or the financed student loans will without further action, pass to and be vested in Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services), as the successor master servicer (except with respect certain duties that will be required of the issuer as set forth in the master servicing agreement). Lyon Financial Services, Inc. (d/b/a U.S. Bank Portfolio Services) is referred to in this offering memorandum as the back-up master servicer or Lyon. The successor master servicer will succeed to all the responsibilities and duties of the master servicer servicer (except with respect to certain duties that will be required of the issuer) and will be entitled to a portion of the administration fee as compensation for its services. If Lyon is unwilling or unable to act as successor master servicer, it may appoint, or petition a court for the appointment of, a successor whose regular business includes the servicing of student loans and for which a rating confirmation has been obtained and for which the issuer has consented; provided, however, Lyon will be required to continue to act as the master servicer until a successor has been so appointed.

The following information has been provided to the issuer by Lyon and has not been verified by the issuer or the underwriters. No representation is made by the issuer or the underwriters as to the accuracy or completeness of this information.

Lyon is a financial services and securitization servicer and administration company formed in 1979. Lyon's division USBank Portfolio Services, has served the securitization and structured finance market since 1995. Lyon provides transaction sponsors and their financial and legal advisors with multi-jurisdictional service through its nationwide network. Professional staff at Lyon includes certified public accountants, in-house paralegal and attorney expertise and others with extensive experience in securitization and structured finance. Lyon provides domestic and off-shore special purpose entities and private investment funds, with a comprehensive line of third-party services, including, servicing, administration, ownership and management, independent governance, accounting, tax preparation, audit coordination, issuance, treasury administration, securities intermediary and special trustee services.

**Recent Developments**

***Inquiries into the Student Loan Industry by Congress, the U.S. Department of Education and State Attorneys General.*** Since January 2007, a number of state attorneys general, the United States Senate Committee on Health, Education, Labor and Pensions and the Inspector General for the U.S. Department of Education have announced or are reportedly conducting broad investigations of various participants in the student loan industry with respect to potential conflicts of interest in connection with the placement of student lenders on preferred lender lists at colleges and universities. Preferred lender lists are lists of lenders recommended by college and university financial aid departments to students seeking student loans. The general focus of the investigations has been on any inappropriate financial arrangements that schools or financial aid administrators may have with student loan lenders that may help the lenders get placed on the preferred lender lists. In addition, at least one state attorney general has expanded the focus of their investigation to review direct consumer marketing practices. The issuer has not been contacted by any

state attorneys general or any other authorities in connection with any of these investigations. The master servicer has entered into a contract to conduct and operate the business affairs of the issuer. *See "THE MASTER SERVICER"*. The master servicer has entered into similar contracts to conduct and operate the business affairs of other non-profit issuers ("Other Non-Profit Issuers") that issue student loan backed securities. Like many other student loan issuers, certain of these Other Non-Profit Issuers have been contacted by certain state attorneys general in connection with the investigations. Each of these Other Non-Profit Issuers has cooperated with the requests for information that it has received. Each of these Other Non-Profit Issuers believes that it has no inappropriate arrangements with any schools or financial aid administrators and that it has conducted its student loan program, including direct marketing efforts, in accordance with applicable laws and regulations. The issuer also believes that it has no inappropriate arrangements with any schools or financial aid administrators and that it has conducted its student loan program, including its direct marketing efforts, in accordance with applicable laws and regulations. While the issuer cannot predict the ultimate outcome of any investigations or the proposed legislation, the issuer does not believe that this matter will materially affect its student loan program or the notes.

Based upon recent events in the State of New York, it is believed that one of these Other Non-Profit Issuers will be asked to enter into a settlement agreement with the New York State Attorney General's Office relating to school and direct-to-consumer marketing practices. This settlement agreement will most likely consist of that Other Non-Profit Issuer agreeing to adopt the State of New York's College Loan Code of Conduct and Direct Marketing Code of Conduct, in addition to paying a nominal fee into the State's national fund to educate students and their families with respect to the financial aid process. While that Other Non-Profit Issuer believes it has not engaged in any illegal or inappropriate marketing practices, it is likely that it will agree to the Attorney General's terms in some form. The activity that the Attorney General is attempting to curtail through these actions has, for the most part, been codified into federal law in recent months and, thus, will have little to no effect on the business practices of that Other Non-Profit Issuer. It is also likely that the master servicer will agree to adopt the Codes of Conduct as to all entities that it manages, including the issuer.

***Recently Enacted Legislation and Regulations.*** On September 27, 2007, the President of the United States signed the College Cost Reduction and Access Act of 2007 into law, which, by amending the Higher Education Act, eliminates certain government subsidies to education lenders. The legislation also includes provisions that: (1) reduce the undergraduate subsidized Stafford Loan interest rate from 6.8% to 3.4% over a five year period, with the rate returning to 6.8% on July 1, 2012, (2) reduce the special allowance rate for student loans first disbursed on or after October 1, 2007, with additional reductions made where student loans are held by any lender that does not qualify as an "eligible not-for profit holder, (3) limit lender reimbursement to 97% of the unpaid balance of FFELP loans for most claims filed on or after October 1, 2007 by eliminating the exceptional performer program, with a further reduction to 95% reimbursement for loans first disbursed on or after October 1, 2012, (4) increase the lender fee from 0.50% to 1.00% for FFELP loans first disbursed on or after October 1, 2007, (5) extend eligibility for the military deferment and (6) introduce an income-based repayment option.

On August 14, 2008, President Bush signed the Higher Education Opportunity Act into law, which extended the ability of the U.S. Department of Education to provide interest subsidies and federal insurance to loans originated under the Federal Family Education Loan Program through September 30, 2014. Provisions of the Higher Education Act governing the Federal Family Education Loan Program amended by the Higher Education Opportunity Act include, but are not limited to, provisions that: expand programs whereby the Secretary of Education may assume the loan obligations of students employed full-time in area of defined national need; provide for additional disclosure to borrowers regarding the terms of their loans, including available repayment plans and consequences of deferment or forbearance; limits inducements guarantee agencies may offer in order to secure loan applications; limits the interest rate payable by borrowers qualifying for such limits under the Servicemembers Civil Relief Act; expand deferral periods for Federal PLUS Loan borrowers; permit certain active duty service members to reconsolidate loans into the Direct Loan Program; increase certain Federal Unsubsidized Stafford Loan limits; and expand circumstances under which loans may be discharged due to disability of the borrower.

## DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

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

The Higher Education Act currently authorizes certain student loans to be covered under the Federal Family Education Loan Program. The Higher Education Act is subject to comprehensive reauthorization approximately every 5 or 6 years and to frequent statutory and regulatory changes. The most recent reauthorization was the Higher Education Opportunity Act, signed into law by President Bush on August 14, 2008. The Higher Education Reconciliation Act of 2005 extended the authorization for the Federal

Family Education Loan Program through September 30, 2014. However, the provisions of the Higher Education Act may not be continued in their present form and may be substantially amended through reauthorization and other legislation. Both the Higher Education Act and the related regulations have been the subject of extensive amendments in recent years. There can be no assurance that the Higher Education Act or other relevant federal or state laws and regulations will not be amended or modified in the future in a manner that will adversely affect the student loans authorized under the Federal Family Education Loan Program. *See "RISK FACTORS—Future changes in the Federal Family Education Loan Program or other relevant laws may adversely affect the student loans held in the trust estate securing your notes"* in this offering memorandum.

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

- has been accepted for enrollment or is enrolled in good standing at an eligible institution of higher education;
- is carrying or planning to carry at least one-half the normal full-time workload for the course of study the student is pursuing as determined by the institution;
- has agreed to promptly notify the holder of the loan of any address change; and
- meets the applicable "needs" requirements.

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

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

**Types of Loans**

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

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

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

The primary loan under the Federal Family Education Loan Program is the Subsidized Federal Stafford Loan. Students who are not eligible for Subsidized Federal Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Federal Stafford Loans. Parents of students and certain graduate and professional students may be able to obtain Federal PLUS Loans. Federal Consolidation Loans are available to borrowers with existing loans made under the Federal Family Education Loan Program and other federal education loan programs to consolidate repayment of the borrower's existing loans. Prior to July 1, 1994, the Federal Family Education Loan Program also offered Federal Supplemental Loans for Students ("Federal SLS Loans") to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students, to supplement their Subsidized Federal Stafford Loans.

**Subsidized Federal Stafford Loans**

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

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

Subsidized Federal Stafford Loans are generally made only to student borrowers who meet the needs tests provided in the Higher Education Act. Provisions addressing the implementation of needs analysis and the relationship between unmet need for financing and the availability of Subsidized Federal Stafford Loan Program funding have been the subject of frequent and extensive amendment in recent years. Further amendment to such provisions may materially affect the availability of Subsidized Stafford Loan funding to borrowers or the availability of Subsidized Federal Stafford Loans for secondary market acquisition.

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

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

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

(2) Maximum rate of 9% per annum.

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

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

| First Disbursement Date | Interest Rate | In-school, Grace and Deferment Period Rate | Maximum Interest Rate |
|---|---|---|---|
| On or after July 1, 1994 through June 30, 1995 | T-Bill Rate plus 3.10% per annum | N/A | 8.25% per annum |
| On or after July 1, 1995 through June 30, 1998 | T-Bill Rate plus 3.10% per annum | T-Bill Rate plus 2.5% per annum | 8.25% per annum |
| On or after July 1, 1998 through June 30, 2006 | T-Bill Rate plus 2.3% per annum | T-Bill Rate plus 1.7% per annum | 8.25% per annum |
| On or after July 1, 2006 | 6.8% | N/A | N/A |
| On or after July 1, 2008 | 6.0% | N/A | N/A |
| On or after July 1, 2009 | 5.6% | N/A | N/A |
| On or after July 1, 2010 | 4.5% | N/A | N/A |
| On or after July 1, 2011 | 3.4% | N/A | N/A |
| On or after July 1, 2012 | 6.8% | N/A | N/A |

**Unsubsidized Federal Stafford Loans**

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

**Federal PLUS Loans**

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

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

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

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

| | | |
|---|---|---|
| On or after July 1, 1998 through June 30, 2006 | T-Bill Rate plus 3.10% | 9% |
| On or after July 1, 2006 | 8.5% | N/A |

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

**Federal SLS Loans**

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

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

**Federal Consolidation Loans**

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

- have outstanding indebtedness on student loans made under the Federal Family Education Loan Program and/or certain other federal student loan programs, and
- be in repayment status or in a grace period, or
- be a defaulted borrower who has made arrangements to repay any defaulted loan satisfactory to the holder of the defaulted loan.

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

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

*Subsequent Consolidation Loans*. Beginning July 1, 2008, a borrower with a Federal Consolidation Loan may refinance that loan with a consolidation loan under the Direct Loan program to obtain an income contingent payment plan if the loan has been submitted to the guarantee agency for default aversion, or to utilize the public service loan forgiveness program. Eligible active duty service military borrowers with a Federal Consolidation Loan may refinance that loan with a consolidation loan under the Direct Loan program under which no interest will accrue. Beginning July 1, 2009, borrowers may also refinance a Federal Consolidation Loan with a consolidation loan under the Direct Loan program in connection with an income based repayment program if the loan has been submitted to the guarantee agency for default aversion or is already in default.

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

**Recapture of Excess Interest**

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

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

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

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

**Maximum Loan Amounts**

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

*Loan Limits For Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans*. A student who has not successfully completed the first year of a program of undergraduate education may borrow up to $2,625 of Subsidized Federal Stafford Loans in an academic year. A student who has successfully completed the first year, but who has not successfully completed the second year may borrow up to $3,500 of Subsidized Federal Stafford Loans per academic year. Beginning July 1, 2007, these amounts are increased to $3,500 and $4,500 respectively. An undergraduate student who has successfully completed the first and second year, but who has not successfully completed the remainder of a program of undergraduate education, may borrow up to $5,500 of Subsidized Federal Stafford Loans per academic year. A graduate or professional student may borrow up to $8,500 of

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

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

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

*Loan Limits For Federal SLS Loans*. Prior to 1993, Federal SLS Loans could be obtained by undergraduate, graduate and professional students to finance their education. A student who had not successfully completed the first and second year of a program of undergraduate education could borrow a Federal SLS Loan in an amount of up to $4,000. A student who had successfully completed the first and second year, but who had not successfully completed the remainder of a program of undergraduate education could borrow up to $5,000 per year. Graduate and professional students could borrow up to $10,000 per year. Federal SLS Loans were subject to an aggregate maximum of $23,000 ($73,000 for graduate and professional students). Prior to the 1992 changes, Federal SLS Loans were available in amounts of $4,000 per academic year, up to a $20,000 aggregate maximum. Prior to the 1986 changes, a graduate or professional student could borrow $5,000 of Federal SLS Loans per academic year, up to a $25,000 maximum, and an independent undergraduate student could borrow $2,500 of Federal SLS Loans per academic year minus the amount of all other Federal Family Education Loan Program loans to such student for such academic year, up to the maximum amount of all Federal Family Education Loan Program loans to that student of $12,500. In 1989, the amount of Federal SLS Loans for students enrolled in programs of less than an academic year in length were limited in a manner similar to the limits described above under *"—Subsidized Federal Stafford Loans"*.

**Disbursement Requirements**

The Higher Education Act now requires that virtually all Federal Stafford Loans and Federal PLUS Loans be disbursed by eligible lenders in at least two separate installments. The proceeds of a loan made to any undergraduate first-year student borrowing for the first time under the program must be delivered to the student no earlier than 30 days after the enrollment period begins. However, a school is exempt from the 30 day delayed delivery requirement for first-year students if the institution's cohort default rate is less than 10% for the three most recent fiscal years (less than 15% beginning October 1, 2011). For all other students, disbursement must not occur more than 30 days prior to the beginning of the period of enrollment for which the loan is made.

**Repayment**

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

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

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

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

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

income based repayment program may extend the maximum repayment period beyond 10 years. The Secretary of Education will repay or cancel any outstanding balance of principal or interest upon satisfaction of certain borrower payment conditions within time periods (not to exceed 25 years) prescribed by the Secretary. Special allowance payments made on a loan subject to income based repayments will be calculated on the principal balance of the loan and on any unpaid accrued interest.

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

- during a period not exceeding three years while the borrower is a member of the Armed Forces, an officer in the Commissioned Corps of the Public Health Service or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan to cover the cost of instruction for a period of enrollment beginning on or after July 1, 1987, an active duty member of the National Oceanic and Atmospheric Administration Corps;

- during a period not in excess of three years while the borrower is a volunteer under the Peace Corps Act;

- during a period not in excess of three years while the borrower is a full-time volunteer under the Domestic Volunteer Act of 1973;

- during a period not exceeding three years while the borrower is in service, comparable to the service described above as a full-time volunteer for an organization that is exempt from taxation under Section 501(c)(3) of the Code;

- during a period not exceeding two years while the borrower is serving an internship necessary to receive professional recognition required to begin professional practice or service, or a qualified internship or residency program;

- during a period not exceeding three years while the borrower is temporarily totally disabled, as established by sworn affidavit of a qualified physician, or while the borrower is unable to secure employment by reason of the care required by a dependent who is so disabled;

- during a period not to exceed twenty-four months while the borrower is seeking and unable to find full-time employment;

- during any period that the borrower is pursuing a full-time course of study at an eligible institution (or, with respect to a borrower who first obtained a student loan disbursed on or after July 1, 1987, or a student loan to cover the cost of instruction for a period of enrollment beginning on or after July 1, 1987, is pursuing at least a half-time course of study for which the borrower has obtained a loan under the Federal Family Education Loan Program), or is pursuing a course of study pursuant to a graduate fellowship program or a rehabilitation training program for disabled individuals approved by the Secretary of Education;

- during a period, not in excess of 6 months, while the borrower is on parental leave; and

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

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

- during any period that the borrower (or for Federal PLUS loans first disbursed on or after July 1, 2008, the student for which the Federal PLUS Loan was borrowed, if different), is pursuing at least a half-time course of study at an eligible institution a course of study pursuant to a graduate fellowship program or rehabilitation training program approved by the Secretary of Education;

- during a period not exceeding three years while the borrower is seeking and unable to find full-time employment; and

- during a period not in excess of three years for any reason that the lender determines, in accordance with regulations under the Higher Education Act, has caused or will cause the borrower economic hardship. Economic hardship includes working full time and earning an amount not in excess of the greater of 150% of the poverty line applicable to the borrower's family size.

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

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

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

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

**Fees**

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

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

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

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

**Interest Subsidy Payments**

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

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

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

**Special Allowance Payments**

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

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

| Date of Loans | Annualized SAP Rate[1] |
|---|---|
| On or after October 1, 1981 | T-Bill Rate less Applicable Interest Rate + 3.5%[2] |
| On or after November 16, 1986 | T-Bill Rate less Applicable Interest Rate + 3.25% |
| On or after October 1, 1992 | T-Bill Rate less Applicable Interest Rate + 3.10% |
| On or after July 1, 1995 | T-Bill Rate less Applicable Interest Rate + 3.10%[3] |
| On or after July 1, 1998 | T-Bill Rate less Applicable Interest Rate + 2.8%[4] |
| On or after January 1, 2000 | 3-Month Commercial Paper Rate less Applicable Interest Rate + 2.34%[5] |
| On or after October 1, 2007 | 3-Month Commercial Paper Rate less Applicable Interest Rate + 1.79%[6] |

[1] The Applicable Interest Rate is 6% for any loan for which the rate of interest is limited pursuant to the Servicemembers Civil Relief Act.

[2] Substitute 3.25% in this formula for Subsidized Federal Stafford Loans disbursed on or after October 17, 1986 for periods of enrollment beginning on or after November 16, 1986.

[3] Substitute 2.5% in this formula while such loans are in the in-school, deferral, or grace period.

[4] Substitute 2.2% in this formula while such loans are in-school, during the grace period, and during any deferment periods. Substitute 3.10% for Federal PLUS Loans and Federal Consolidation Loans.

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

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

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

The effective formulas for special allowance payment rates for loans differ depending on whether loans to borrowers were acquired or originated with the proceeds of tax-exempt obligations. There are minimum special allowance payment rates for loans acquired with proceeds of tax-exempt obligations, which rates effectively ensure an overall minimum return of 9.5% on such loans. However, loans acquired with the proceeds of tax-exempt obligations originally issued after September 30, 1993 are treated the same as other loans for special allowance payment purposes. In addition, loans that: (1) were financed through tax-exempt obligations that have matured or been retired or defeased after September 30, 2004; (2) are refinanced after September 30, 2004 with funds from another source; (3) sold or transferred to any other holder after September 30, 2004; (4) were made or purchased on or after February 8, 2006; or (5) were not subject to the 9.5% minimum return treatment on February 8, 2006 are treated the same as other loans for special allowance payment purposes. The February 8, 2006 cut-off date is extended to December 31, 2010 for holder who, on February 8, 2006, were a unit of a state or local government or a non-profit entity that was owned or controlled by or under common ownership of a for-profit entity and held directly through any subsidiary, affiliate or trustee and whose total unpaid balance of principal on 9.5% minimum return loans in the most recent quarterly payment prior to September 30, 2005 was less than or equal to $100,000,000.

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

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

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

## DESCRIPTION OF THE GUARANTEE AGENCIES

Each FFELP loan is required to be guaranteed as to principal and interest by one of the guarantee agencies described in this offering memorandum under "*REGARDING THE STUDENT LOANS-Description of Guarantee Agencies for the FFELP Loans*", reinsured by the United States Department of Education under the Higher Education Act and must be eligible for special allowance payments and, in the case of some FFELP loans, interest subsidy payments by the United States Department of Education. The following discussion relates to guarantee agencies under the Federal Family Education Loan Program.

*General*. A guarantee agency guarantees FFELP loans made to students or parents of students by lending institutions such as banks, credit unions, savings and loan associations, certain schools, pension funds and insurance companies. Generally, a guarantee agency will reimburse 98% of each FFELP loan originated on or before June 30, 2006, 97% of each FFELP loan first disbursed on or after July 1, 2006 and 95% of each FFELP loan made on or after October 1, 2012. If a FFELP loan is serviced by a master servicer that has been designated an "Exceptional Performer" by the Department of Education, this reimbursement is increased to 99%. Exceptional Performer designations will not be renewed for servicers after October 1, 2007. On or after July 1, 2006, a guarantee agency must reimburse 100% of each FFELP loan for which it is determined that the borrower (or the student on whose behalf a parent has borrowed), without the lender's or institution's knowledge at the time the loan was made, provided false or erroneous information or took actions that caused the borrower or the student to be ineligible for all or a portion of the loan or interest benefits. A guarantee agency generally purchases defaulted student loans that it has guaranteed with its reserve fund. A lender may submit a default claim to the guarantee agency after the student loan has been delinquent for at least 270 days. The default claim package must include all information and documentation required under the Federal Family Education Loan Program regulations and the guarantee agency's policies and procedures.

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

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

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

Additionally, the adequacy of a guarantee agency's reserve fund to meet its guarantee obligations with respect to existing student loans depends, in significant part, on its ability to collect revenues generated by new loan guarantees. The Federal Direct Student Loan Program discussed below may adversely affect the volume of new loan guarantees. Future legislation may make additional changes to the Higher Education Act that would significantly affect the revenues received by guarantee agencies and the structure of the guarantee agency program.

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

Federal Direct Student Loan Program, and, under certain circumstances, the Secretary of Education may demand payment of amounts in the reserve fund.

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

Under the Higher Education Act, if the Department of Education has determined that a guarantee agency is unable to meet its insurance obligations, the holders of loans guaranteed by such guarantee agency must submit claims directly to the Department of Education, and the Department of Education is required to pay the full guarantee payment due with respect thereto in accordance with guarantee claims processing standards no more stringent than those applied by the guarantee agency.

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

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

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

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

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

*Federal Insurance and Reimbursement of Guarantee Agencies-Effect of Annual Claims Rate*. With respect to loans made prior to October 1, 1993, the Secretary of Education currently agrees to reimburse the guarantee agency for up to 100% of the amounts paid on claims made by lenders, as discussed in the formula described below, so long as the eligible lender has properly originated and serviced such loan. The amount of reimbursement is lower for loans originated after October 1, 1993, as described below. Depending on the claims rate experience of a guarantee agency, such reimbursement may be reduced as discussed in the formula described below. The Secretary of Education also agrees to repay 100% of the unpaid principal plus applicable accrued interest expended by a

guarantee agency in discharging its guarantee obligation as a result of the bankruptcy, death, or total and permanent disability of a borrower, or in the case of a Federal PLUS Loan, the death of the student on behalf of whom the loan was borrowed, or in certain circumstances, as a result of school closures, which reimbursements are not to be included in the calculations of the guarantee agency's claims rate experience for the purpose of federal reimbursement under the Federal Reimbursement Contracts.

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

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

The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year.

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

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

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

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

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

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

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

Under present practice, after the Secretary of Education reimburses a guarantee agency for a default claim paid on a guaranteed loan, the guarantee agency continues to seek repayment from the borrower. The guarantee agency returns to the Secretary of Education payments that it receives from a borrower after deducting and retaining: a percentage amount equal to the complement of the reimbursement percentage in effect at the time the loan was reimbursed, and an amount equal to 24% of such payments (23%

beginning October 1, 2003, 16% beginning October 1, 2007 or 18.5% in the case of a payment from the proceeds of a consolidation loan) for certain administrative costs. On or after October 1, 2006, a guarantee agency may not charge a borrower collection costs in an amount in excess of 18.5% of the outstanding principal and interest of a defaulted loan that is paid off by a consolidation loan and must remit to the Secretary of Education a portion of this collection charge equal to 8.5% of the outstanding principal and interest of the defaulted loan. On and after October 1, 2009, a guarantee agency must remit to the Secretary of Education the entire collection charge for defaulted loans paid off by excess consolidation proceeds. Excess consolidation proceeds are the proceeds from defaulted loan consolidations that exceed 45% of the guarantee agency's total collections on defaulted loans in a federal fiscal year. Guarantee agencies must also adopt procedures to preclude consolidation lending from being an excessive proportion of the guarantee agency's default recoveries. The Secretary of Education may, however, require the assignment to the Secretary of Education of defaulted guaranteed loans, in which event no further collections activity need be undertaken by the guarantee agency, and no amount of any recoveries shall be paid to the guarantee agency.

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

*Rehabilitation of Defaulted Loans*. Under the Higher Education Act, the Secretary of Education is authorized to enter into an agreement with each guarantee agency pursuant to which the guarantee agency shall sell defaulted loans that are eligible for rehabilitation to an eligible lender. A guarantee agency may charge a borrower and retain collection costs in an amount not to exceed 18.5% of the outstanding principal and interest at the time of sale of a rehabilitated loan. The guarantee agency shall repay the Secretary of Education an amount equal to 81.5% of the then current principal balance of such loan, multiplied by the reimbursement percentage in effect at the time the loan was reimbursed. The amount of such repayment shall be deducted from the amount of federal reimbursement payments for the fiscal year in which such repayment occurs for purposes of determining the reimbursement rate for that fiscal year.

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

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

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

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

- that completed loan applications be processed;
- a determination of whether an applicant is an eligible borrower attending an eligible institution under the Higher Education Act be made;
- the borrower's rights and responsibilities under the loan be explained to him or her;

- the promissory note evidencing the loan be executed by the borrower; and

- that the loan proceeds be disbursed by the lender in a specified manner.

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

*Guarantee Agencies for the FFELP Loans.* The FFELP loans acquired with the proceeds of the notes will be guaranteed by one or more guarantee agencies identified in this offering memorandum under "*REGARDING THE STUDENT LOANS-Description of Guarantee Agencies for the FFELP Loans*".

Under the Higher Education Amendments of 1992, if the United States Department of Education has determined that a guarantee agency is unable to meet its insurance obligations, a loan holder may submit claims directly to the United States Department of Education and the United States Department of Education is required to pay the full guarantee payment in accordance with guarantee claim processing standards no more stringent than those of the guarantee agency. We cannot assure you that the United States Department of Education would ever make such a determination with respect to a guarantee agency or, if such a determination was made, whether that determination or the ultimate payment of guarantee claims would be made in a timely manner.

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

- the origination and servicing of the student loan being performed in accordance with the Federal Family Education Loan Program, the Higher Education Act, the guarantee agency's rules and other applicable requirements;

- the timely payment to the guarantee agency of the guarantee fee payable on the student loan; and

- the timely submission to the guarantee agency of all required pre-claim delinquency status notifications and of the claim on the student loan.

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

## DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM

### General

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

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

### Eligible Borrower

An eligible borrower under the Health Education Assistance Loan Program is a student who (i) meets certain citizen, national or resident requirements, (ii) has been accepted for enrollment at a school of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, pharmacy, public health or chiropractic, or a graduate program in health administration or clinical psychology (an "eligible institution") or, if attending an eligible institution, is in good standing at that institution, but, in the case of a medical, dental

or osteopathic student, including only the last four years of an accelerated, integrated program of study, (iii) is or will be a full-time student at the eligible institution, (iv) has agreed that all funds received under the loan will be used solely for tuition and other reasonable educational expenses and the insurance premium charged on the loan, (v) requires the borrower to pursue the course of study at the institution, and (vi) if a pharmacy student, has satisfactorily completed three years of training. Certain individuals who meet the same citizen, national or resident requirements and have previously received a loan insured under the Health Education Assistance Loan Program while a full-time student at an eligible institution may also receive a loan during the period before principal must be paid on the loan to repay interest due on the previous loans under the Health Education Assistance Loan Program.

**Eligible Lender**

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

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

**Insurance Benefits**

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

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

**Authorized Amounts of HEAL Loans**

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

**Terms of HEAL Loans**

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

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

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

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

**Interest**

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

As a general rule, unpaid accrued interest may be compounded semi-annually and added to principal. However, if a borrower postpones payment of interest before the beginning of the repayment period or during Deferment Periods or the lender permits postponement during forbearance, the lender may refrain from semi-annual compounding of interest and add accrued interest to principal only at the time repayment of principal begins or resumes. A lender may do so only if this practice does not result in interest being compounded more frequently than semi-annually. Interest begins to accrue when a loan is disbursed. However, a borrower may

postpone payment of interest before the beginning of the repayment period or during the Deferment Periods or a lender may permit postponement during the forbearance. In these cases, payment of interest must begin or resume on the date on which repayment of principal begins or resumes. If payment of interest is postponed, it may be added to the principal for purposes of calculating a repayment schedule.

**Insurance Premium**

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

**Consolidation of HEAL Loans**

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

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

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

**Due Diligence**

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

**Claims**

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

**Insurance Fund**

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

## DESCRIPTION OF THE INDENTURE

The notes will be issued under a discrete Indenture of Trust dated as of _____, 2008, among the issuer, the indenture trustee and the eligible lender trustee which provides for the issuance of the notes.

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

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

**Parity and Priority of Lien**

The provisions of the indenture generally will be for the equal benefit, protection and security of the holders of all of the notes issued thereunder. However, the Class A notes issued under the indenture will have priority over the Class B notes and the Class C notes issued thereunder and Class B notes issued under the indenture will have priority over the Class C notes. *See "DESCRIPTION OF THE NOTES—The Class B Notes—Subordination of the Class B Notes"* and *"DESCRIPTION OF THE NOTES—The Class C Notes—Subordination of the Class C Notes"* in this offering memorandum.

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

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

- required sales to the secretary of the Department of Education, the Secretary of Health and Human Services or guaranty agencies for claims payments related to defaulted student loans;
- required sales to subservicers for claims payments on student loans which have lost their guarantee due to servicing errors; or
- to effect the release of any student loan from the lien of the indenture in connection with a repurchase, or substitution of a student loan held in the trust estate as described below under *"—Priority of Lien"* and *"—Repurchase Obligation"*.

**Priority of Lien**

The revenues and other money, student loans and other assets pledged under the indenture will be pledged under the indenture free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto that is prior to or of equal rank with the pledges and liens created by the indenture, except as otherwise expressly provided in the indenture. Except as otherwise provided in the indenture, the issuer will:

- not create or voluntarily permit to be created any debt, lien or charge on the student loans held in the trust estate that would be on a parity with, or prior to the lien or pledge of the indenture;

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

- pay or cause to be paid, or will make adequate provisions for the satisfaction and discharge, of all lawful claims and demands that if unpaid might by law be given precedence to or any equality with the indenture as a lien or charge upon the student loans held in the trust estate.

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

The indenture permits the issuer to issue securities pursuant to a separate indenture of trust that will be entitled to receive all or a portion of any amounts released from the trust estate under the indenture securing the notes that would otherwise be paid to the residual certificateholder as described in this offering memorandum under *"DESCRIPTION OF THE NOTES—Allocations and Distributions—Distributions"*.

**Derivative Product and Derivative Payments**

The issuer will be authorized under the indenture to enter into a derivative product, defined to mean a written contract under which the issuer will become obligated to pay to a counterparty on specified payment dates certain amounts in exchange for the counterparty's obligation to make payments to the indenture trustee on specified payment dates in specified amounts. The issuer's obligation to make payments in connection with a derivative product may be secured by a pledge of and lien on the trust estate. The issuer will not be permitted to enter into a derivative product or other credit support instrument unless the indenture trustee has received confirmation from each rating agency then rating any of the outstanding notes that the derivative product will not adversely affect its rating(s) of those notes.

**Representations and Warranties of the Issuer**

The issuer will represent and warrant that:

- it is duly authorized under the laws of the State of Texas to create and issue its notes and to execute and deliver the indenture and any derivative product, and to pledge collateral under the indenture to the payment of its notes and any derivative payments required to be paid;

- all necessary action for the creation and issuance of its notes and the execution and delivery of the indenture and any derivative product has been duly and effectively taken;

- its notes in the hands of the noteholders and any derivative product are and will be valid and enforceable special limited obligations of the issuer secured by and payable solely from the trust estate;

- it is a non-profit corporation duly organized and validly existing in good standing under the laws of the State of Texas and has the power to own its assets and to transact the business in which it presently engages; and

- it is an organization described in Section 501(c)(3) of the Internal Revenue Code, is not a "private foundation" as defined in Section 509(a) of the Internal Revenue Code, and is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code.

**Covenants**

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

In addition, under the indenture, the amounts payable to the master servicer as an Administration Fee (excluding fees or other amounts due to third parties) are not permitted to exceed 0.15% per annum of the average monthly outstanding principal balance of the student loans held under the indenture; provided, however, the amounts payable to the master servicer as an administration fee may be increased at any time if a rating confirmation is obtained.

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

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

The issuer will covenant to cause an annual audit to be made by an independent auditing firm of national reputation and file two copies of the audit with the indenture trustee and each rating agency rating any of the notes within 120 days of the close of each fiscal year. The indenture trustee shall not be obligated to review or otherwise analyze those audits.

The issuer will covenant that it will deliver all financed student loans, immediately upon acquisition, to a custodian to be held pursuant to the indenture and pursuant to the master servicing agreement, a subservicing agreement and a custodian agreement. The indenture trustee will not be responsible or liable for the safekeeping of any financed student loans held by a custodian or for the acts or omissions of a custodian.

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

**Repurchase Obligation**

If a student loan does not satisfy certain eligibility criteria set forth in the indenture when it is acquired and pledged to the trust estate, the issuer is required to promptly use reasonable efforts to compel the applicable lender or seller to cure the student loan. If the student loan cannot be cured, the issuer is required to repurchase the student loan from the trust estate by paying the indenture trustee the unpaid principal balance of such student loan and interest accrued thereon. *See "RISK FACTORS—The inability of the issuer to meet its repurchase obligations may result in losses on your investment"*.

To be eligible for purchase under the indenture, a student loan is required to be either a FFELP loan made under the Federal Family Education Loan Program or a HEAL loan made under the Health Education Assistance Loan Program. The student loans are also required to meet the requirements described in this offering memorandum under "*ACQUISITION OF THE STUDENT LOANS*".

In addition, under the indenture, the issuer has assigned to the indenture trustee for the benefit of the noteholders all of the issuer's right, title and interest in each student loan purchase agreement and each subservicing agreement. The student loan purchase agreements and subservicing agreements generally contain repurchase obligations that may be enforced by the indenture trustee as a result of this assignment.

Under the indenture, each student loan is required to be purchased pursuant to a student loan purchase agreement. Under the terms of each student loan purchase agreement, the applicable Seller is required to make representations, warranties and covenants with respect to the student loans sold. Generally, the selling lender is required to make representations and warranties that each student loan is insured by the Department of Education, insured under the Public Health Service Act or guaranteed by a guarantee agency and that each student loan is in compliance with the Higher Education Act or the Public Health Service Act, as applicable, in all respects. At the request of the indenture trustee (or the issuer), the Seller is obligated to cause the repurchase or substitution of any student loan transferred to the issuer and pledged under the indenture if the Department of Education, Secretary of Health and Human Services or a guarantee agency refuses to pay an insurance claim on a student loan as a result of the Seller failing to comply with its representations and warranties.

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

**Reporting Requirements**

Under the indenture, the issuer will covenant to provide, no later than the fifth ($5^{th}$) day after each distribution date, to the indenture trustee (with a copy to the rating agencies) for the indenture trustee to forward within five (5) days of receipt to The Depository Trust Company as the registered owner of the notes, a statement setting forth information with respect to its notes and the student loans held in the trust estate as of the most recent distribution date, including the following to the extent applicable:

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

- the number and percentage by dollar amount of (i) initial federal reimbursement claims for student loans held in the trust estate and (ii) rejected federal reimbursement claims for student loans held in the trust estate as of the close of business on the last day of the related collection period;

- principal balance of student loans held in the trust estate in each of the following statuses: (i) forbearance, (ii) deferment, (iii) claims, (iv) in-school, (v) grace, and (vi) repayment as of the close of business on the last day of the related collection period;

- the principal balance of student loans held in the trust estate by loan type as of the close of business on the last day of the related collection period;

- the principal balance of student loans by school type as of the close of business on the last day of the preceding collection period; and

- the rebate fee paid to the Secretary of the Department of Education during the preceding collection period.

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

**Enforcement of Master Servicing Agreement**

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

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

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

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

- dealing with the Secretary of Education and the Secretary of Health and Human Services, as applicable, with respect to the rights, benefits and obligations under the certificates of insurance, the contract of insurance, insurance with respect to HEAL loans and dealing with the guarantee agencies with respect to the rights, benefits and obligations under the guarantee agreements with respect to the FFELP loans held in the trust estate;

- diligently enforcing, and taking all reasonable steps necessary or appropriate for the enforcement of all terms, covenants and conditions of all student loans held in the trust estate and agreements in connection with the student loans, including the prompt payment of all principal and interest payments and all other amounts due under those student loans;

- causing the student loans held in the trust estate to be serviced by entering into a master servicing agreement with the master servicer for the collection of payments made for, and the administration of the accounts of, the student loans;

- complying with, and causing all of its officers, directors, employees and agents to comply, with the provisions of the Higher Education Act and any regulations or rulings thereunder and the Public Health Service Act and any regulations or rulings thereunder, as applicable, with respect to the student loans held in the trust estate; and

- causing the benefits of the guarantee agreements, the interest subsidy payments and the special allowance payments to flow to the indenture trustee.

**Continued Existence; Successor**

The issuer will preserve and keep in full force and effect its existence, rights and franchises as a Texas nonprofit corporation duly organized and validly existing in good standing under the laws of Texas. The issuer will not sell, transfer or otherwise dispose of all or substantially all of its assets, consolidate with or merge into any corporation or other entity, or permit one or more other corporations or entities to consolidate with or merge with it. Those restrictions do not apply to a transfer of student loans that is made in connection with a discharge of the indenture or to a transaction where the transferee or the surviving or resulting corporation or entity, if other than the issuer, by proper written instrument for the benefit of the indenture trustee, irrevocably and unconditionally assumes the obligation to perform and observe the agreements and obligations of the issuer under the indenture and each rating agency then rating any of the outstanding notes of confirms in writing that the transaction will not result in a downgrade of its rating(s) of those notes.

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

**Events of Default**

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

- default in the due and punctual payment of the principal of or interest on any of the Class A notes issued thereunder when due or the failure to make any payment due under any derivative products payable on a parity with those Class A notes;

- if no Class A notes are outstanding under the indenture, default in the due and punctual payment of the principal of or interest on any of the Class B notes issued thereunder when due;

- if no Class A notes and no Class B notes are outstanding under the indenture, default in the due and punctual payment of the principal of or interest on any of the Class C notes issued thereunder when due;

- default by the issuer in the performance or observance of any other of the covenants, agreements or conditions contained in the indenture or in the notes issued thereunder, and continuation of such default for a period of 90 days after written notice thereof by the indenture trustee to the issuer; and

- the occurrence of an event of bankruptcy with respect to the issuer.

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

**Remedies on Default**

***Possession of Trust Estate***. Upon the happening and continuance of any event of default under the indenture, the indenture trustee will have the right to take possession of any portion of the trust estate that may be in the custody of others, and all property comprising the trust estate, and will have the right to hold, use, operate, manage and control those assets. The indenture trustee also will have the right, in the name of the issuer or otherwise, to collect and receive all charges, income and revenues of the trust estate. After deducting all expenses incurred and all other proper outlays authorized in the indenture, and all payments that may be made as just and reasonable compensation for its own services, and for the services of its attorneys, agents, and assistants, and any other amounts owed to it under the indenture, the indenture trustee will apply the rest of the money received by the indenture trustee as follows:

If the principal of none of the obligations under the indenture shall have become due, as described in this offering memorandum under "*DESCRIPTION OF THE NOTES—ALLOCATIONS AND DISTRIBUTIONS*".

If the principal of any of the obligations under the indenture shall have become due by declaration of acceleration or otherwise,

- *first*, pro rata, based on the total of (i) the amount of interest payable by the issuer based on the aggregate principal balance of the Class A notes and (ii) the amount payable by the issuer to the counterparty under any derivative product payable on a parity with those Class A notes as scheduled payments and as certain termination payments, (a) to the Class A notes, the Class A Noteholders' Interest Distribution Amount, pro rata, based on the amounts payable as Class A Noteholders' Interest Distribution Amount, and (B) to the counterparty under any derivative product payable on a parity with the Class A notes, the amount payable by the issuer as scheduled payments and as certain termination payments specified in the schedule to any derivative product;

- *second*, to the payment of the principal of all Class A notes outstanding under the indenture then due, which payments will be made ratably to the parties entitled to the payments without discrimination or preference,

- *third*, to the payment of the interest due and unpaid on Class B notes outstanding under the indenture, at the applicable rate of interest on those notes;

- *fourth*, to the payment of the principal of all Class B notes outstanding under the indenture then due, which payments will be made ratably to the parties entitled to the payments without discrimination or preference,

- *fifth*, to the payment of the interest due and unpaid on Class C notes outstanding under the indenture, at the applicable rate of interest on those notes;

- *sixth*, to the payment of the principal of all Class C notes outstanding under the indenture then due, which payments will be made ratably to the parties entitled to the payments without discrimination or preference,

- *seventh*, to the payment of all other derivative termination payments payable on a parity with the Class A notes then due and not previously paid, and

- *eighth*, to the residual certificateholder.

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

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

***Accelerated Maturity***. If an event of default occurs and be continuing under the indenture, the indenture trustee will have the right to declare, or upon the written direction by the holders of at least a majority of the principal amount of the highest priority obligations then outstanding under the indenture will be required to declare, the principal of all then outstanding obligations issued under the indenture, and the interest thereon, immediately due and payable. A declaration of acceleration upon the occurrence of a default under the indenture other than a default in making payments when due or an event of default relating to bankruptcy of the issuer will require the consent of all of the notes then outstanding under the indenture.

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

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

- the holders of at least 25% of the principal amount of notes outstanding under the indenture shall have previously given to the indenture trustee written notice of a default under the indenture, and of the continuance thereof,

- the holders of at least 25% of the principal amount of notes outstanding under the indenture shall have made a written request upon the indenture trustee and the indenture trustee shall have been afforded reasonable opportunity to institute an action, suit or proceeding in its own name, and

- the indenture trustee shall have been offered indemnity and security satisfactory to it against the costs, expenses, and liabilities to be incurred on an action, suit or proceeding in its own name.

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

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

**The Indenture Trustee**

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

- Except during the continuance of an event of default, the indenture trustee undertakes to perform only those duties as are specifically set forth in the indenture. The indenture trustee will not be liable for its actions or omissions under the indenture except for its own negligence or willful misconduct. In the absence of bad faith or negligence on its part, the indenture trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed in the indenture, upon certificates or opinions furnished to the indenture trustee and conforming to the requirements of the indenture.

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

- Before taking any action under the indenture requested by noteholders, the indenture trustee may require that it be furnished an indemnity bond or other indemnity and security satisfactory to it by those noteholders for the reimbursement of all expenses it may incur and to protect it against liability arising from any action taken by the indenture trustee except liability which results from the negligence or willful misconduct of the indenture trustee and negligence with respect to money deposited and applied pursuant to the indenture, by reason of any action so taken by the indenture trustee.

***Indenture Trustee May Act through Agents***. The indenture trustee may execute any of the trusts or powers under the indenture and perform any duty thereunder either itself or by or through its attorneys, agents, or employees. All reasonable costs incurred by the indenture trustee and all reasonable compensation to all such persons as may reasonably be employed in connection with the trusts of the indenture will be paid by the issuer.

***Duties of Indenture Trustee***. Other then the duty of the indenture trustee to make payment on obligations when due and pursue the remedy of acceleration for events of default, the indenture trustee generally will be under no obligation or duty to perform any act at the request of holders of notes issued under the indenture or to institute or defend any suit to protect the rights of the holders of notes issued under the indenture unless properly indemnified and provided with security to its satisfaction. The indenture trustee will not be required to take notice of any event of default (other than a default on the payment of interest or principal) under the

indenture unless and until it shall have been specifically notified in writing of the event of default by the holders of a majority of the principal amount of the highest priority of notes outstanding issued under the indenture or an authorized representative of the issuer.

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

If the issuer or the noteholders, as appropriate, fail to make such reimbursement or indemnification, the indenture trustee may reimburse itself from any money in its possession under the provisions of the indenture, subject only to the prior lien of the notes outstanding thereunder for the payment of the principal thereof and interest thereon from the collection account.

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

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

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

- by the holders of a majority of the principal amount of the highest priority obligations then outstanding under the indenture;
- by the issuer for cause or upon the sale or other disposition of the indenture trustee or its trust functions; or
- by the issuer without cause so long as no event of default exists or has existed within the last 30 days.

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

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

***Successor Indenture Trustee***. If the indenture trustee resigns, is removed, dissolved or otherwise is disqualified to act or is incapable of acting, or in case control of the indenture trustee is taken over by any public officer or officers, a successor indenture trustee may be appointed by the issuer. In this case the issuer will cause notice of the appointment of a successor indenture trustee to be mailed to the holders of the notes at the address of each noteholder appearing on the note registration books.

Every successor indenture trustee

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

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

**Supplemental Indentures**

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

- to cure any ambiguity or defect or omission in the indenture;
- to grant to or confer upon the indenture trustee for the benefit of the noteholders any additional benefits, rights, remedies, powers or authorities;
- to subject to the indenture additional revenues, properties or collateral;
- to modify, amend or supplement the indenture or supplemental indenture in such manner as to permit the qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute or to permit the qualification of the notes for sale under the securities laws of the United States of America or of any of the states of the United States of America, and, if they so determine, to add to the indenture or any supplemental indenture such other terms, conditions and provisions as may be permitted by the Trust Indenture Act of 1939 or similar federal statute;
- to evidence the appointment of a separate or co-indenture trustee or a co-registrar or transfer agent or the succession of a new indenture trustee under the indenture;
- to add provisions to or to amend provisions of the indenture as may, in the opinion of counsel, be necessary or desirable to assure implementation of the issuer's student loan program in conformance with the Higher Education Act and the Public Health Service Act, if along with such supplemental indenture there is filed a note counsel's opinion to the effect that the addition or amendment of such provisions will in no way impair the existing security of the noteholders or any holders of outstanding obligations;
- to add such provisions to or to amend such provisions of the indenture as may, in the opinion of counsel, be necessary or desirable to assure that the issuer (i) maintains its status an organization described in Section 501(c)(3) of the Internal Revenue Code, (ii) does not become a "private foundation" as defined in Section 509(a) of the Internal Revenue Code, and (iii) is exempt from federal income taxation under Section 501(a) of the Internal Revenue Code, if along with such supplemental indenture there is filed an opinion of counsel to the effect that the addition or amendment of such provisions will in no way impair the existing security of the noteholders or any holders of outstanding obligations and the issuer first obtains a rating confirmation with respect to such action;
- to make any change as shall be necessary to obtain and maintain for any of the notes issued under the indenture the then current rating with respect to such notes from a nationally recognized rating service, which changes, in the opinion of the indenture trustee are not to the prejudice of the holder of any of the obligations outstanding under the indenture;
- to make any changes necessary to comply with the Higher Education Act and the regulations thereunder, the Public Health Service Act or the Internal Revenue Code and the regulations promulgated thereunder;
- to make the terms and provisions of the indenture, including the lien and security interest granted therein, applicable to a derivative product;
- to create any additional funds or accounts under the indenture deemed by the indenture trustee to be necessary or desirable; or
- to amend the indenture to provide for use of a surety bond or other financial guaranty instrument in lieu of cash and investment securities in all or any portion of any reserve account, so long as such action shall not adversely affect the ratings on any of the notes issued under the indenture.

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

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

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

**Trust Irrevocable**

The trust created by the terms and provisions of the indenture will be irrevocable until the principal of and the interest due on all obligations under the indenture and all derivative payments are fully paid or provision is made for its payment, as provided in the indenture.

**Satisfaction of Indenture**

If the holders of the notes and any other obligations issued under the indenture are paid all the principal of and interest due on those notes and other obligations, at the times and in the manner stipulated in the indenture, and if each counterparty on a derivative product is paid all of derivative payments then due, then the pledge of the trust estate will thereupon terminate and be discharged. The indenture trustee will execute and deliver all necessary instruments to evidence the discharge and satisfaction, and the indenture trustee will pay all money held by it under the indenture to the party entitled to receive it under the indenture.

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

**Obligations are Special and Limited Obligations**

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

## CONTINUING DISCLOSURE OF INFORMATION

**General**

In the indenture, the issuer has made the following agreement for the benefit of the holders of the notes. Under the agreement, the issuer is obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to certain information vendors described in the following paragraph. This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

**Annual Reports**

The issuer will provide, or cause to be provided, certain updated financial information and operating data with respect to the issuer to certain information vendors annually. The issuer will update and provide this information within six months after the end of each fiscal year beginning with the fiscal year ending June 30, 2008. The issuer will provide, or cause to be provided, the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

The issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents. The updated information will include audited financial statements, if the issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the issuer will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles generally accepted in the United States.

The issuer's current fiscal year end is June 30. Accordingly, it must provide updated information by December 31 in each year, unless the issuer changes its fiscal year. If the issuer changes its fiscal year, it will notify each NRMSIR and any SID of the change.

**Material Event Notices**

The issuer will provide notice to any SID and either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") of any of the following events with respect to the notes, if such event is material within the meaning of the federal securities laws: (1) principal and interest payment delinquencies; (2) non-payment related defaults; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) modifications to rights of noteholders; (5) note calls; (6) defeasances; (7) release, substitution, or sale of a substantial part of the property securing repayment of the notes; and (8) rating changes. In addition, the issuer will provide timely notice of any failure by the issuer to provide financial information or operating data in accordance with its agreement described above under "*—Annual Reports.*" The issuer will provide each notice described in this paragraph to any SID and to either each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB").

**Availability of Information from NRMSIRs and SID**

The issuer has agreed to provide the foregoing information only to NRMSIRs, the MSRB and any SID. The information will be available to the holders of the notes only if the holders of the notes comply with the procedures and pay the charges established by such information vendors or obtain the information through securities brokers who do so.

The following NRMSIRs exist at this time: (i) Bloomberg Municipal Repository, Princeton, New Jersey; (ii) DPC Data, Inc., Fort Lee, New Jersey; and (iii) Thomson Municipal Securities, Inc. and Standard & Poor's Repository, each in New York, New York. The Municipal Advisory Council of Texas has been designated by the State of Texas as a SID, and the SEC staff has issued a no action letter confirming that designation. The address of the Municipal Advisory Council of Texas is 600 West 8th Street, P.O. Box 2177, Austin, Texas 78768-2177, and its telephone number is (512) 476-6947.

**Limitations and Amendments**

The issuer has agreed to update information and to provide notices of material events only as described above. The issuer has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The issuer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the notes at any future date. The issuer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although any noteholder may seek a writ of mandamus to compel the issuer to comply with its agreement. Failure of the issuer to comply with any provision of its continuing disclosure agreement is not a default under the indenture.

The continuing disclosure agreement contained in the indenture may be amended by the issuer and the indenture trustee from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the issuer but only if (1) the provisions of the indenture relating to the issuer's continuing disclosure obligation, as so amended, would have permitted an underwriters to purchase or sell the notes in the primary offering of the notes in compliance with SEC Rule 15c2-12 (the "Rule"), taking into account any amendments or interpretations to the Rule to the date of such amendment, as well as such changed circumstance and (2) either (a) the holders of a majority in aggregate

principal amount (or any greater amount required by any other provision of the indenture that authorizes such an amendment) of the outstanding notes consent to such amendment or (b) a person that is unaffiliated with the issuer (such as nationally recognized note counsel) determines that such amendment will not materially impair the interest of the holders of the notes.

Any filing described in this offering memorandum under "*CONTINUING DISCLOSURE OF INFORMATION*" may be made solely by transmitting such filing to the Texas Municipal Advisory Council as provided at www.disclosureusa.org unless the United States Securities and Exchange Commission has withdrawn the interpretative advice in its letter to the Texas Municipal Advisory Council dated September 7, 2004.

## FEDERAL INCOME TAX CONSEQUENCES

### Certain Federal Income Tax Consequences

The following discussion is a summary of certain anticipated federal income tax consequences of the purchase, disposition and ownership of the notes by prospective holders. This summary is of a general nature only and does not consider all the possible federal tax consequences of the purchase, ownership or disposition of the notes and is not intended to and does not exhaust all possible aspects of federal income taxation that may be relevant to a holder based on his or her particular circumstances (including, but not limited to, potential application of the alternative minimum tax). Moreover, except as expressly indicated, it addresses purchasers of the notes that acquire the notes at initial issuance.

This summary is based upon the existing provisions of the Internal Revenue Code of 1986, as amended (the "Code"), existing regulations thereunder, and the current administrative rulings and court decisions, all of which are subject to change. There can be no assurance that any changes in the Code, regulations or court cases will not retroactively change the statements made herein. Moreover, this summary does not take into account or anticipate any changes in the law, whether by legislative, judicial or administrative action, nor does it take into account any state, local or foreign tax consequences or considerations for any potential holders. No rulings on the federal, state or local tax issues considered relevant to the organization or operation of the issuer or an investment in the notes have been sought or obtained by the issuer or the master servicer. Also, there are no authorities dealing with similar transactions or having facts comparable to the issuance of the notes. Consequently, the Internal Revenue Service ("IRS") may disagree with certain portions of the following discussion and the opinions expressed herein.

This discussion is directed solely to holders that hold the notes as capital assets under Code Section 1221 and does not deal with the tax consequences to holders who do not hold the notes as capital assets or who are subject to special tax treatment under the federal income tax laws (including, without limitation, banks, thrifts, insurance companies, real estate investment trusts and certain tax exempt organizations, dealers in securities or currencies, holders that hold notes or foreign currency as a hedge against currency risks or as part of a straddle with other investments or as part of a "synthetic security" or other integrated investment (including a "conversion transaction") comprised of a note and one or more other investments, or holders that have a "functional currency" other than the U.S. dollar). Except to the extent discussed under *" – Non-United States Holders,"* this summary is not applicable to non-United States persons.

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

**TO COMPLY WITH U.S. TREASURY REGULATIONS, WE ADVISE YOU THAT ANY U.S. FEDERAL TAX ADVICE INCLUDED IN THIS COMMUNICATION (1) IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, TO AVOID ANY U.S. FEDERAL TAX PENALTIES, AND (2) WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION OR MATTER ADDRESSED BY THIS COMMUNICATION. ANY TAXPAYER SHOULD SEEK ADVICE FROM AN INDEPENDENT TAX ADVISOR BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES.**

### Partnership Holders

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds the notes, the U.S. federal income tax treatment of a partner generally will depend on the status of the partner and the activities of the partnership. A partnership holding the notes, and partners in such a partnership, should consult their own tax advisors with regard to the U.S. federal income tax consequences of the purchase, ownership and disposition of the notes by the partnership.

**United States Holders**

*Characterization of the Notes as Indebtedness*

As used herein, the term "United States Holder" means a beneficial owner of a note that is for United States federal income tax purposes:

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

There are no Treasury Regulations, published administrative rulings, or judicial decisions involving the federal income tax characterization of securities with terms substantially similar to the notes. The master servicer and the issuer have agreed, and the holders, by accepting the notes, will agree, to treat the notes as indebtedness for federal income tax purposes. The master servicer and the issuer intend to treat this transaction as a financing reflecting the notes as indebtedness for tax purposes.

Based on the assumptions and representations of the master servicer and the issuer contained in this offering memorandum and the documents described in the following sentence, in the opinion of Squire, Sanders & Dempsey L.L.P., the Class A and Class B notes will be characterized as debt for federal income tax purposes. In addition, as discussed below, Squire, Sanders & Dempsey L.L.P. will issue its opinion that the Class C notes should not be treated as an equity interest in Leon Higher Education Authority, Inc. and the issuer intends to treat the Class C notes as debt for federal income tax purposes, except where otherwise stated. The assumptions and representations upon which the foregoing opinion is based are: (1) the pertinent provisions of the Code, the Treasury Regulations promulgated thereunder and the judicial and administrative rulings and decisions now in effect will remain in effect and will not otherwise be amended, revised, reversed or overruled; (2) the indenture, the servicing agreements and the other documents contemplated by this transaction and referred to herein are executed and delivered in substantially the form as on file with the indenture trustee (the "transaction documents") and the parties thereto will carry out their respective duties and obligations as set forth therein; (3) there are no changes to the terms of the notes as described in this offering memorandum; and (4) the master servicer, the issuer and the holders will treat the notes as indebtedness for federal income tax purposes. This opinion will not be binding on the courts or the IRS.

*Tax Treatment of Issuer*

Squire, Sanders and Dempsey L.L.P. has issued opinions to Citigroup Global Markets Inc., as representative of the underwriters and to the issuer to the effect that the issuer is an organization exempt from tax under section 501(c)(3) of the Code and will not have unrelated business taxable income with respect to the student loans which are part of the trust estate governed by the trust indenture, and that the Class C notes should not be treated as an equity interest in Leon Higher Education Authority, Inc. Such opinions are subject to and limited by the assumptions and review described in the opinions and may not be relied upon or used by other persons. The opinions issued are merely the opinion of Squire, Sanders and Dempsey L.L.P. and are not binding on the IRS or the courts, and it is possible that the IRS and the courts may disagree with such opinions.

*Tax Consequences if the Class C Notes Are Characterized as Equity*

The IRS might assert that the Class C notes do not represent debt for federal income tax purposes, but, rather, should be treated as equity interests in a partnership between the holders of the Class C notes and the issuer. If, instead of treating the transaction as creating secured debt in the form of the Class C notes issued, the transaction were treated as creating such a partnership, the resulting partnership would not be subject to federal income tax, unless such partnership were treated as a publicly traded partnership taxable as a corporation. Rather, the issuer and each such holder would be taxed individually on their respective distributive shares of the partnership's income, gain, loss, deduction and credit. The amount and timing of items of income and deduction of a holder might differ if the Class C notes were held to constitute partnership interests, rather than indebtedness. Furthermore, the distributive share of partnership income of tax-exempt entities (including pension funds) other than the issuer might be "unrelated business taxable income."

If the holders of the Class C notes were treated as partners in a publicly traded partnership, such partnership would be taxable as a corporation, unless 90% of the gross income of the issuer was "qualifying income". The issuer has represented that for 2008 and each subsequent taxable year at least 90% of the gross income of the issuer will consist of interest income attributable to loans acquired by the issuer (but not originated by the issuer) and interest or dividend income from investment of certain reserve funds. Based upon the foregoing representation of the issuer, even if the transaction were treated as creating a partnership between the holders of the Class C notes and the issuer, such a partnership would not be treated as a publicly traded partnership taxable as a corporation.

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

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

*Payments of Interest*

Except as described below with respect to the Class C notes, interest paid on a note will be taxable to a United States Holder as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes.

*Original Issue Discount*

If one or more classes of notes are treated as issued at an issue price less than their stated principal amount, the notes would be deemed to be issued with "original issue discount" (OID) within the meaning of Section 1273(a) of the Code, subject to the *de minimis* rules described below. Such OID would equal the difference between the "stated redemption price at maturity" of the note (generally, its principal amount) and its issue price. OID is treated as ordinary interest income, and holders of notes with OID must include the amount of OID in income on a constant yield to maturity basis in advance of the receipt of the cash to which such OID relates. Accruals of OID should be calculated by assuming that interest will be paid over the life of the notes based on the value of LIBOR used in setting interest for the first interest period, and then adjusting the income for each subsequent interest period for any difference between the actual value of LIBOR used in setting interest for that subsequent interest period and the assumed rate. The issue price of a note generally is equal to the initial offering price to the public at which price a substantial amount of such notes were sold for cash. It is anticipated that all or a substantial portion of the Class A notes will be issued for cash. Accordingly, for purposes of calculating OID, the issue price of a Class A note will be equal to the first price at which a substantial amount of the Class A notes is sold to the public for cash.

It is anticipated that all, or a substantial amount, of the Class B notes and Class C notes will not be sold in their initial offering for cash and, instead, will be issued in exchange for property (certain existing notes referred to herein as the existing subordinate notes). Accordingly, the issue price of the Class B and Class C notes will depend on whether the Class B notes, Class C notes, and/or the existing subordinate notes are treated as publicly traded. For these purposes, notes are considered to be publicly traded if they appear on a quotation medium (generally, a system of general circulation that disseminates price quotations or sales prices) that provides a reasonable basis to determine fair market value, or if price quotations are readily available from dealers, brokers or traders. If either the Class B notes issued in exchange for the existing subordinate notes, or the existing subordinate notes, were treated as publicly traded, the issue price of the Class B notes would be the fair market value of the publicly traded notes. If either the Class C notes issued in exchange for the existing subordinate notes, or the existing subordinate notes, were treated as publicly traded, the issue price of the Class C notes would be the fair market value of the publicly traded Notes. We anticipate that both the Class B notes and the Class C notes will be treated as publicly traded, in which case the issue price of such Notes will be equal to their fair market value on the issue date.

Under these rules, if the issue price of either the Class B or the Class C notes is less than their stated principal amount by more than a *de minimis* amount, such notes will be treated as issued with OID, which may be substantial. In addition, because the Class C notes do not require interest to be paid at least annually, the "stated redemption price at maturity" of a Class C note will include all payments provided for under such note, including payments of interest. The total amount of such discount with respect to a Class C note will equal the sum of all payments to be received under such Class C note less its issue price. The amount of OID accruing on a note issued with OID in any interest period will generally equal the stated interest accruing in that period (whether or not currently due) plus any additional amount representing the accrual under a constant yield method of any additional OID represented by the excess of the principal amount of the notes over their issue price. Accruals of any such additional OID will be based on the projected weighted average life of the notes issued with OID rather than the notes' stated maturity.

If, contrary to our expectations, either the Class B notes or the Class C notes (and the existing subordinate notes in exchange for which they were issued) are not treated as publicly traded, then (i) in the case of the Class B notes, the issue price would be equal to their stated principal amount and they would not be treated as issued with OID and (ii) in the case of the Class C notes, the issue price would be equal to their stated principal amount, and the stated redemption price at maturity of the Class C notes would equal the sum of their stated principal amount and all payments of interest scheduled to be made pursuant to the terms of such notes. Accordingly, the Class C notes would still bear OID (in the amount of the difference between their issue price and their stated redemption price at maturity) but the amount of such OID would be smaller than if the Class C notes (or the existing subordinate notes in exchange for which they were issued) were treated as publicly traded.

The portion of OID that accrues during the time a United States Holder owns the a note (i) constitutes interest includable in the United States Holder's gross income for federal income tax purposes and (ii) is added to the United States Holder's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale, or other disposition of the note. Thus, the effect of OID is to increase the amount of taxable income above the actual interest payments during the life of the notes.

If the amount of OID with respect to a note is less than an amount equal to .0025 multiplied by the product of the stated redemption price at maturity and the number of complete years to the maturity of the note, the amount of OID is treated as zero. Because the notes provide for payments of principal prior to maturity, they will be treated as "installment obligations" for purposes of the OID regulations. In the case of installment obligations, the number of complete years to maturity for purposes of this "*de minimis*" test is equal to the projected weighted average maturity of the notes.

*Notes Purchased at a Premium*

Under the Code, if the issue price of a note is in excess of its stated repayment price at maturity, a United States Holder may elect to treat such excess as "amortizable bond premium". Under this election, the amount of interest required to be included in the United States Holder's income each year with respect to interest on a note will be reduced by the amount of amortizable bond premium allocable (based on the note's yield to maturity) to that year. If the amortizable bond premium allocable to a year exceeds the amount of interest allocable to that year, the excess would be allowed as a deduction for that year, but only to the extent of the United States Holder's prior interest inclusions on the note. Any excess is generally carried forward and allocable to the next year. A United States Holder who elects to amortize bond premium must reduce its tax basis in the note. Any election to amortize bond premium is applicable to all bonds (other than bonds the interest on which is excludable from gross income) held by the United States Holder at the beginning of the first taxable year to which the election applies, or bonds acquired thereafter by the United States Holder. This election may not be revoked without the consent of the IRS.

*Purchase, Sale, Exchange and Retirement of the Notes*

A United States Holder's tax basis in a note generally will equal its cost, increased by any original issue discount included in the United States Holder's income with respect to the note, and reduced by the amount of any amortizable bond premium applied to reduce interest on the note and any payments on the note other than payments of qualified stated interest. A United States Holder generally will recognize gain or loss on the sale, exchange or retirement of a note equal to the difference between the amount realized on the sale or retirement of the note (less any accrued interest, which will be taxed as such) and the United States Holder's tax basis in the note. Gain or loss recognized on the sale, exchange or retirement of a note will be capital gain or loss and will be long-term capital gain or loss if the note was held for more than one year. In the event that the notes were treated as issued with original issue discount, as discussed under *"— United States Holders – Original Issue Discount,"* a portion of any gain recognized on the disposition, exchange or retirement of a note could be characterized as interest income.

**Non-United States Holders**

The following is a general discussion of certain United States federal income and estate tax consequences resulting from the beneficial ownership of notes by a person other than a United States Holder, a former United States citizen or resident, or a partnership or entity treated as a partnership for United States federal income tax purposes (a "Non-United States Holder").

With respect to a Non-United States Holder of a Class C note treated as an equity interest in a partnership for U.S. tax purposes, if the partnership is not engaged in a U.S. trade or business, then the partnership will be required to withhold U.S. federal tax at a rate of 30% on the Non-United States Holder's distributive share of certain U.S. source income (including interest and certain gains and OID), unless such Non-United States Holder qualifies for an exemption from withholding under the Code (such as pursuant to the portfolio interest exemption discussed below) or is eligible for a reduced withholding tax rate under an applicable tax treaty. Also, if the partnership is not treated as engaged in a U.S. trade or business, a Non-United States Holder generally will not be subject to U.S. tax on a disposition of all or portion of its Class C note. If the partnership is treated as engaged in a U.S. trade or business, then a Non-United States Holder of a Class C note treated as an equity interest will be treated as so engaged. In that case, the partnership would be required to withhold U.S. federal tax at the highest applicable rates on a Non-United States Holder's distributive

share of the partnership's income and gains that are effectively connected with such trade or business, and a Non-United States Holder would be required to file U.S. federal (and possibly state and local) tax returns and pay U.S. federal (and possibly state and local) tax on its share of the net effectively connected income of the partnership. If the partnership is treated as engaged in a U.S. trade or business, then all or a portion of the gain on the disposition by a Non-United States Holder of a Class C note may be taxed as effectively connected income. A Non-United States Holder that is a foreign corporation may also be subject to an additional U.S. branch profits tax of 30% on its share of the partnership's net effectively connected earnings and profits (subject to reduction under an applicable tax treaty). The remainder of this discussion assumes that the Class C notes will be treated as indebtedness of the issuer for federal income tax purposes.

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

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

If a Non-United States Holder is engaged in a trade or business in the United States and interest on a note held by such holder is effectively connected with the conduct of such trade or business, the Non-United States Holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), may be subject to United States federal income tax on such interest in the same manner as if it were a United States Holder. In addition, if the Non-United States Holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a note will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States. Such a holder must provide the payor with a properly executed IRS Form W-8ECI (or successor form) to claim an exemption from United States federal withholding tax.

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

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

*United States Estate Tax Considerations*

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

**Information Reporting and Backup Withholding**

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

If a United States Holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under-reports its tax liability, the issuer, its agents or paying agents or a broker may be required to make "backup" withholding of tax on each payment of interest or principal on the notes. For 2008 and following tax years, the backup withholding rate for applicable payments is 28%, subject to increase to 31% after 2010. This backup withholding is not an additional tax and may be credited against the United Stares Holder's federal income tax liability, provided that the United States Holder furnishes the required information to the IRS.

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

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

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

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

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

## STATE TAX CONSIDERATIONS

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

## ERISA CONSIDERATIONS

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary duties and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes similar prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) of the Code and on individual retirement accounts and annuities described in Section 408 of the Code (collectively, "Tax-Favored Plans"). ERISA Plans and Tax-Favored Plans, and entities whose underlying assets include "plan assets" by reason of ERISA Plans or Tax-Favored Plans investments in such entities, are collectively referred to herein as "Benefit Plans").

Fiduciaries of Benefit Plans, in consultation with their advisors, should consider the impact of ERISA and the regulations issued thereunder on a purchase of notes. Among other considerations, the fiduciary of a Benefit Plan should take into account the composition of the Benefit Plan's portfolio with respect to diversification by type of asset; the cash flow needs of the Benefit Plan and the effects thereon of the liquidity of the investment; the Benefit Plan's funding objectives; the tax effects of the investment and the tax and other risks described in this offering memorandum; the fact that the holders of the notes will consist of a diverse group of investors and that the management of the issuer will not take the particular objectives of any investor or class of investors into account; the fact that the issuer is not intended to hold plan assets of any of the investors and, therefore, that the issuer, the master servicer, nor any of their respective agents or employees will be acting as a fiduciary under ERISA to the Benefit Plan, either with respect to the Benefit Plan's purchase or retention of its investment or with respect to the management and operation of the business and assets of the issuer.

In addition, fiduciaries of Benefit Plans should also consider whether an investment in the notes could involve a direct or indirect transaction with a "Party In Interest" or "Disqualified Person" with respect to such Benefit Plan, or a prohibited conflict of interest for the fiduciary acting on behalf of the Benefit Plan. A prohibited transaction or conflict of interest could arise if the fiduciary acting on behalf of the Benefit Plan has any interest in or affiliation with the issuer, the master servicer or any subservicer. In the case of an individual retirement account ("IRA"), a prohibited transaction or conflict of interest that involves the beneficiary of the IRA could result in disqualification of the IRA, with the result that all of the IRA's assets become immediately taxable.

Certain transactions involving the issuer might be deemed to constitute prohibited transactions under ERISA and the Code with respect to a Benefit Plan that purchased notes if assets of the issuer were deemed to be assets of the Benefit Plan. Under a regulation issued by the United States Department of Labor (as modified by Section 3(42) of ERISA, the "Plan Assets Regulation"), the assets of the issuer would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Code only if the Benefit Plan acquired an "equity interest" in the issuer, as applicable, and none of the exceptions to plan assets contained in the Plan Assets Regulation was applicable. An equity interest is defined under the Plan Assets Regulation as an interest other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features.

### Class A notes and Class B notes

Although there is little guidance on the subject, assuming the Class A notes and Class B notes constitute debt for local law purposes, the issuer believes that, at the time of their issuance, such notes should not be treated an equity interests in the issuer for purposes of the Plan Assets Regulation. This determination is based in part upon the traditional debt features of such notes, including the reasonable expectation of purchasers of such notes that such notes will be repaid when due, as well as the absence of conversion rights, warrants and other typical equity features. The debt treatment of the Class A notes and the Class B notes for ERISA purposes could change if the issuer incurred losses. This risk of recharacterization is enhanced for notes that are subordinated to other classes of notes.

### Class C notes

The term "plan asset" is not defined in ERISA. In order to mitigate a potential risk that the issuer could be deemed to hold "plan assets" of Benefit Plans, the issuer has determined to limit purchases of the Class C notes by Benefit Plans such that investment by Benefit Plans will not be "significant" for purposes of the Plan Assets Regulation.

Investment by Benefit Plans will not be "significant" for purposes of the Plan Assets Regulation if at all times less than 25% of the value of the Class C notes and equity interests in the issuer (excluding the interests of any person who has discretionary authority or control, or provides investment advice for a fee (direct or indirect) with respect to the assets of the issuer, and certain affiliates of any such person (a "Controlling Person")) is held by Benefit Plans. Although the issuer intends to limit the purchase of the Class C notes by Benefit Plans so that participation by such noteholders is not "significant", no assurance can be provided that the issuer will be able to appropriately limit the purchase of Class C notes by Benefit Plans. The issuer reserves the right to reject the purchase of a Class C note by a purchaser for any reason, including that the prospective investor is a Benefit Plan. In addition, the issuer has the right to restrict any transfer of Class C notes so as to prevent investment by Benefit Plans from becoming "significant" for purposes of the Plan Assets Regulation.

If the issuer is deemed to hold "plan assets" of Benefit Plans, ERISA's prudence and other fiduciary standards would apply to and might materially affect the operations of the issuer. In addition, any transaction with the issuer may be deemed to be a transaction with each Benefit Plan. Such treatment also could cause many transactions into which the issuer might enter in the ordinary course of business to constitute prohibited transactions under ERISA.

**Prohibited Transaction Considerations**

However, without regard to whether the notes are treated as an equity interest for purposes of the Plan Assets Regulation, acquisition or holding of notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if certain entities, including but not limited to the issuer or the master servicer, are or become a Party in Interest or a Disqualified Person with respect to such Benefit Plan. Certain exemptions from the prohibited transaction rules could be applicable to the purchase and holding of notes by a Benefit Plan depending on the type and circumstances of the Benefit Plan fiduciary making the decision to acquire such notes. Those exemptions include, but are not limited to: (i) Prohibited Transaction Class Exemption ("PTCE") 95-60, regarding investments by insurance company general accounts; (ii) PTCE 91-38, regarding investments by bank collective investment funds; (iii) PTCE 90-1, regarding investments by insurance company pooled separate accounts; (iv) PTCE 84-14, regarding transactions negotiated by qualified professional asset managers or (v) PTCE 96-23 regarding certain transactions effected by an in-house asset manager.

In addition to the class exemptions listed above, the Pension Protection Act of 2006 provides a statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for prohibited transactions between a Benefit Plan and a person or entity that is a party in interest to such Benefit Plan solely by reason of providing services to the Benefit Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the Benefit Plan involved in the transaction), provided that there is adequate consideration for the transaction. Even if the conditions specified in one or more of these exemptions are met, the scope of the relief provided by these exemptions might or might not cover all acts which might be construed as prohibited transactions. There can be no assurance that any of these, or any other exemption, will be available with respect to any particular transaction involving the notes and prospective purchasers that are Benefit Plans should consult with their advisors regarding the applicability of any such exemption.

Governmental plans, as defined in the Code and ERISA, are not subject to Title I of ERISA, and are also not subject to the prohibited transaction provisions under Section 4975 of the Code. However, state or local laws or regulations governing the investment and management of the assets of such plans may contain fiduciary and prohibited transaction requirements similar to those under ERISA and the Code discussed above and may include other limitations on permissible investments. Accordingly, fiduciaries of governmental plans, in consultation with their advisors, should consider the requirements of their respective pension codes with respect to investments in the notes, as well as general fiduciary considerations.

Each original purchaser and each subsequent transferee of a Class A note or a Class B note will be deemed to represent and warrant either that (a) it is not (and for so long as it holds any such note or interest therein will not be) and is not acting on behalf of (and for so long as it holds and such note will not be acting on behalf of) a Benefit Plan, or a governmental, non-U.S. or church plan which is subject to any federal, state or local law that is similar to the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code (any such federal, state or local law, a "Similar Law"), or (b) its purchase and ownership of such note will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of a governmental, non-U.S. or church plan, a non-exempt violation of any Similar Law).

Each original purchaser of a Class C note in the initial placement of the Class C notes will (a) be required to certify whether or not it is a Benefit Plan or a Controlling Person and, (b) if a Benefit Plan or a governmental, non-U.S. or church plan which is subject to any Similar Law, will be required to represent and warrant that its purchase and ownership of such Class C note will not result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code (or, in the case of a governmental, non-U.S. or church plan, a non-exempt violation of any Similar Law).

No Class C note may be transferred to a transferee that is a Benefit Plan or a Controlling Person after the initial placement of the Class C notes and each subsequent transferee of a Class C note will be deemed to represent and warrant that (a) it is not (and for so long as it holds any such Class C note or interest therein will not be) and is not acting on behalf of (and for so long as it holds and such Class C note will not be acting on behalf of) a Benefit Plan and (b) either (i) it is not (and for so long as it holds any such Class C note or interest therein will not be) and is not acting on behalf of (and for so long as it holds and such Class C note will not be acting on behalf of) a governmental, non-U.S. or church plan which is subject to Similar Law, or (ii) its purchase and ownership of such Class C note will not result in a non-exempt violation of any Similar Law.

The indenture permits the issuer to require that any noteholder that is determined to be a Benefit Plan or a Controlling Person, in the sole discretion of the issuer, sell such Class C note to a person who is not a Benefit Plan or a Controlling Person and who meets all other applicable transfer restrictions and, if such acquirer does not comply with such demand within 30 days thereof, the issuer may sell such acquirer's interest in such Class C notes.

NONE OF THE ISSUER, THE MASTER SERVICER, THE INDENTURE TRUSTEE, THE UNDERWRITERS OR ANY OF THEIR RESPECTIVE AFFILIATES, AGENTS OR EMPLOYEES WILL ACT AS A FIDUCIARY TO ANY BENEFIT PLAN WITH RESPECT TO THE BENEFIT PLAN'S DECISION TO INVEST IN THE NOTES. EACH FIDUCIARY OR OTHER PERSON WITH INVESTMENT RESPONSIBILITIES OVER THE ASSETS OF A BENEFIT PLAN CONSIDERING AN INVESTMENT IN THE NOTES MUST CAREFULLY CONSIDER THE ABOVE FACTORS BEFORE MAKING AN INVESTMENT. FIDUCIARIES OF BENEFIT PLANS CONSIDERING THE PURCHASE OF NOTES SHOULD CONSULT ITS LEGAL ADVISORS REGARDING WHETHER THE ASSETS OF THE ISSUER WOULD BE CONSIDERED PLAN ASSETS, THE POSSIBILITY OF EXEMPTIVE RELIEF FROM THE PROHIBITED TRANSACTION RULES AND OTHER ISSUES AND THEIR POTENTIAL CONSEQUENCES.

## UNDERWRITING

Subject to the terms and conditions set forth in a note purchase agreement between the issuer and Citigroup Global Markets Inc., as representative of the underwriters, the issuer has agreed to sell to the underwriters, and the underwriters have agreed to purchase the Class A notes from the issuer in the principal amounts set forth below.

| Series of Notes | Citigroup Global Markets Inc. | [_____] | [_____] | Total |
|---|---|---|---|---|
| Series 2008A-1 notes ..... | | | | |
| Series 2008A-2 notes ..... | | | | |
| Series 2008A-3 notes ..... | | | | |
| Series 2008A-4 notes ..... | | | | |
| Series 2008A-5 notes ..... | | | | |
| Total..... | $_____ | $_____ | $_____ | $_____ |

In the note purchase agreement, the underwriters have agreed, subject to the terms and conditions set forth therein, that if they purchase any of the Class A notes, they will purchase all of them. The underwriters have advised the issuer that the underwriters propose initially to offer the Class A notes to the public at the offering prices set forth on the cover page of this offering memorandum. The underwriters may offer and sell the Class A notes at prices lower than the offering prices stated on the cover page hereof. The initial offering prices may be changed from time to time by the underwriters.

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

The issuer will not sell to the underwriters, and the underwriters will not purchase from the issuer the Class B notes and the Class C notes. All of the Class B notes and the Class C notes will be offered by the issuer as described in this offering memorandum under "*ACQUISITION OF THE STUDENT LOANS*".

The notes are new issues of securities with no established trading market. The underwriters intend to make a market in the notes but they do not have to do so and may discontinue market making activities at any time without notice. We cannot assure you that you will be able to sell your notes.

The issuer intends to apply for a listing of the Class A notes on the Irish Stock Exchange. There can be no assurance that this listing will be obtained. The issuance and settlement of the Class A notes is not conditioned on the listing of the Class A notes on the Irish Stock Exchange. Other than this intended application for listing on the Irish Stock Exchange, no action has been or will be taken by the issuer or the underwriters that would permit a public offering of the notes in any country or jurisdiction, where action for that purpose is required. Accordingly, the notes may not be offered or sold, directly or indirectly, and neither this offering memorandum, nor any circular, advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose hands the offering memorandum comes are required to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, sell or deliver notes or have in their possession or distribute this offering memorandum, in all cases at their own expense.

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

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

## LEGAL MATTERS

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

## RATINGS

It is a condition to the sale of the Class A notes that they be rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's. It is a condition to the sale of the Class B notes that they be rated at least "Aa2" by Moody's Investors Service, Inc. and "AA" by Standard & Poor's. It is a condition to the sale of the Class C notes that they be rated at least "B3" by Moody's Investors Service, Inc., at least "B-" by Standard & Poor's or at least by "B-" Fitch Ratings.

A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. The ratings of the notes address the likelihood of the ultimate payment of principal of and interest on the notes under their terms.

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

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

## ABSENCE OF LITIGATION

There is no controversy or litigation of any nature now pending or threatened restraining or enjoining the issuance, sale, execution or delivery of the notes, or in any way contesting or affecting the validity of the notes or any proceedings of the issuer 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 notes or the existence or powers of the issuer**.**

## REPORTS TO NOTEHOLDERS

Under the terms of the indenture, we have agreed to deliver quarterly reports to noteholders. The information provided in these quarterly reports is described in this offering memorandum under "*DESCRIPTION OF THE INDENTURE—Reporting Requirements*." Generally, you will receive quarterly reports not from us, but through Cede & Co., as nominee of The Depository Trust Company and registered holder of the notes. *See* "*DESCRIPTION OF THE NOTES—Book-entry Registration*" in this offering memorandum. We are also required to provide a copy of each quarterly report to the rating agencies. These quarterly reports will not be audited nor will they constitute financial statements prepared in accordance with generally accepted accounting principals.

These quarterly reports may be viewed at our website by clicking on the link labeled "Leon Higher Education Authority" at www.brazosgroup.com.

## MISCELLANEOUS

All quotations from, and summaries and explanations of the laws, the Higher Education Act, the Public Health Service Act, the indenture and other agreements contained herein do not purport to be complete and reference is made to said laws, regulations, indenture and agreements for full and complete statements of their provisions. The appendices attached hereto are a part of this offering memorandum. Copies, in reasonable quantity, of the applicable state laws, the indenture and other agreements may be inspected upon request directed to Leon Higher Education Authority, Inc., 2600 Washington Avenue, P.O. Box 1308, Waco, Texas 76703, Attn: President.

The notes are special and limited obligations of the issuer. The notes are not general obligations of the issuer. None of the indenture trustee, the issuer, the master servicer, or any of their respective agents, officers, directors, employees, successors or assigns will be personally liable for the payment of the principal of or interest on the notes issued under the indenture or for the agreements of the issuer contained in the indenture.

Any statements in this offering memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This offering memorandum is not to be construed as a contract or agreement between the issuer and purchasers or holders of any of the notes.

LEON HIGHER EDUCATION AUTHORITY, INC.

By: _____
President, Board of Directors

Dated: _____, 2008

## APPENDIX A

## Glossary of Defined Terms

"Adjusted Pool Balance" means, for any distribution date, (i) if the Pool Balance as of the last day of the related collection period is greater than 40% of the Initial Pool Balance, the sum of that Pool Balance, the amount on deposit in the capitalized interest account (after any distributions from that account), and the Reserve Account Requirement for that distribution date, or (ii) if the Pool Balance as of the last day of the related collection period is less than or equal to 40% of the Initial Pool Balance, the sum of that Pool Balance and the amount on deposit in the capitalized interest account (after any distributions from that account).

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

- all collections on the student loans during that collection period, including any guarantee payments and insurance payments received on the student loans, but net of:

  (a) any collections in respect of principal on the student loans applied by the issuer to repurchase guaranteed loans from the guarantors under the guarantee agreements, and

  (b) amounts required by the Higher Education Act to be paid to the Department of Education or to be repaid to borrowers, whether or not in the form of a principal reduction of the applicable student loan, on the student loans for that collection period, including consolidation loan rebate fees and special allowance payment rebates, if any;

- any interest subsidy payments and special allowance payments with respect to the student loans during that collection period;

- the aggregate purchase amounts received during that collection period for those student loans repurchased by the issuer or purchased by the master servicer or for student loans sold to another eligible lender pursuant to the master servicing agreement;

- the aggregate amounts, if any, received during that collection period from any seller under a student loan purchase agreement or the master servicer, as the case may be, as reimbursement of non-guaranteed interest amounts, or lost interest subsidy payments and special allowance payments, on the student loans pursuant to the student loan purchase agreement or the master servicing agreement;

- any interest remitted by the indenture trustee to the collection account during that collection period or monthly servicing payment date;

- investment earnings during that collection period earned on amounts on deposit in each account created under the indenture;

- amounts transferred into the collection account from the capitalized interest account during (or at the end of) that collection period; and

- amounts transferred from the reserve account in excess of the Reserve Account Requirement during (or at the end of) that collection period;

provided, that if on any distribution date there would not be sufficient funds, after application of Available Funds, as defined above, and application of amounts available from the capitalized interest account and the reserve account, to pay the monthly issuer expenses and any of the items specified in clauses (a) and (b) (or if a Class B Interest Subordination Condition is in effect, only clause (a) from the capitalized interest account and the reserve account) under "*DESCRIPTION OF THE NOTES—Allocations and Distributions—Distributions,*" then Available Funds for that distribution date will include, in addition to the Available Funds as defined above, amounts on deposit in the collection account, or amounts held by the indenture trustee, or which the indenture trustee reasonably estimates to be held by the indenture trustee, for deposit into the collection account which would have constituted Available Funds for the distribution date succeeding that distribution date, up to the amount necessary to pay those items, and the Available Funds for the succeeding distribution date will be adjusted accordingly.

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

(a) the Class A Noteholders' Interest Distribution Amount on the preceding distribution date, over

(b) the amount of interest actually distributed to the Class A noteholders on that preceding distribution date, plus interest on the amount of that excess, to the extent permitted by law, at the interest rate applicable for each such series of notes from that preceding distribution date to the current distribution date.

"Class A Noteholders' Interest Distribution Amount" means, for any distribution date, the sum of:

(a) the amount of interest accrued at the respective Class A note interest rates for the related accrual period on the aggregate outstanding principal amounts of the Class A notes immediately preceding such distribution date, and

(b) the Class A Note Interest Shortfall for that distribution date.

"Class B Interest Subordination Condition" means, if after giving effect to all required distributions of principal and interest on the notes on any distribution date, the sum of the outstanding principal balance of the student loans, plus accrued but unpaid interest thereon as of the last day of the related collection period, and amounts then on deposit in the reserve account and the capitalized interest account as of that distribution date, would be less than the outstanding principal amount of the Class A notes.

"Class B Note Interest Shortfall" means, for any distribution date, the excess of:

(a) the Class B Noteholders' Interest Distribution Amount on the preceding distribution date, over

(b) the amount of interest actually distributed to the Class B noteholders on that preceding distribution date, plus interest on the amount of that excess, to the extent permitted by law, at the Class B note interest rate from that preceding distribution date to the current distribution date.

"Class B Noteholders' Interest Distribution Amount" means, for any distribution date, the sum of:

(a) the amount of interest accrued at the Class B note rate for the related accrual period on the outstanding principal amount of the Class B notes immediately preceding such distribution date, and

(b) the Class B Note Interest Shortfall for that distribution date.

"Class C Note Interest Carryover" means, for any distribution date, the excess of:

(a) the Class C Noteholders' Interest Distribution Amount on the preceding distribution date, over

(b) the amount of interest actually distributed to the Class C noteholders on that preceding distribution date, plus interest on the amount of that excess, to the extent permitted by law, at the Class C note interest rate from that preceding distribution date to the current distribution date.

"Class C Noteholders' Interest Distribution Amount" means, for any distribution date, the sum of:

(a) the amount of interest accrued at the Class C note rate for the related accrual period on the outstanding principal amount of the Class C notes immediately preceding such distribution date, and

(b) the Class C Note Interest Carryover for that distribution date.

"Initial Pool Balance" means the Pool Balance as of the closing date.

"Overcollateralization Amount" means the amount by which the Adjusted Pool Balance exceeds the outstanding principal amount of the Class A notes and the Class B notes.

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

"Principal Distribution Amount" means, with respect to any distribution date, the greater of (a) an amount equal to the excess, if any, of (i) the aggregate principal amount of all of the Class A notes and the Class B notes immediately prior to such distribution date, minus (ii) the difference between (A) the Adjusted Pool Balance as of the last day of the related collection period

and (B) the Specified Overcollateralization Amount for such distribution date and (b) the aggregate principal amount of each series of notes with a maturity date on or prior to such distribution date.

"Reserve Account Requirement" means, for any distribution date, the greater of: (a) 0.25% of the Pool Balance as of the close of business on the last day of the related collection period; or (b) an amount equal to 0.15% of the Initial Pool Balance. In no event will the reserve account requirement exceed the outstanding balance of all our Class A notes and Class B notes issued pursuant to the indenture.

"Sellers" mean each of Brazos Higher Education Authority, Inc., a Texas non-profit corporation, Academic Finance Corporation, a Texas non-profit corporation, Federated Student Finance Corporation, a Texas non-profit corporation, and Educational Funding Services, Inc.

"Specified Overcollateralization Amount" means, with respect to any distribution date, an amount equal to a percentage of the Adjusted Pool Balance that is no greater than 5 percentage points higher than the initial Overcollateralization Amount, expressed as a percentage of the initial Adjusted Pool Balance on the closing date.

## APPENDIX B

### Description of Subservicers

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

***ACS Commercial Education & Financial Services.*** ACS Commercial Education & Financial Services acts as a loan servicing agent for the issuer. ACS Commercial Education & Financial Services is a for-profit corporation and a wholly-owned subsidiary of Affiliated Computer Services, Inc. ("ACS"). Headquartered in Dallas, Texas, ACS is a Fortune 500 company providing business process and technology outsourcing solutions to world-class commercial and government clients. ACS's Class A common stock trades on the New York Stock Exchange under the symbol "ACS". As of July 31, 2008, ACS provided loan servicing for approximately $42.5 billion in student and parental loans. ACS has its headquarters at One World Trade Center, Suite 2200, Long Beach, California 90831, and has regional processing centers in Long Beach and Bakersfield, California; Utica, New York; Montego Bay, Jamaica, Juarez, Mexico and Oakbrook, Illinois.

***Chase Student Loan Servicing, LLC.*** Chase Student Loan Servicing, LLC (formerly known as CFS-SunTech Servicing LLC) ("CSLS") is a Delaware limited liability company and a wholly owned subsidiary of CFS Servicing, LLC, which is a wholly owned subsidiary of Collegiate Funding Services, Inc. ("CFS"). CFS was acquired by JP Morgan Chase Bank, N.A. on March 1, 2006. CSLS previously conducted its business as a separate company under the name SunTech, Inc. On April 15, 2003, CFS acquired the servicing business of SunTech, Inc. SunTech, Inc. began servicing education loans in 1990. Prior to that time, the operation was part of the Mississippi secondary market and had serviced loans since 1984. CSLS provides loan origination and loan servicing for lenders and secondary markets. CSLS' operations are located in Madison, MS where as of July 31, 2008 it had approximately 266 employees. As of July 31, 2008, CSLS serviced a portfolio of approximately 691,000 accounts with outstanding balances of approximately 14.4 billion in both FFELP and private education loans.

***Great Lakes Educational Loan Services, Inc.*** Great Lakes Educational Loan Services, Inc. ("GLELSI") acts as a loan servicing agent for the issuer. GLELSI is a wholly owned subsidiary of Great Lakes Higher Education Corporation ("GLHEC"), a Wisconsin nonstock, nonprofit corporation. The primary operations center for GLHEC and its affiliates (including GLELSI) is in Madison, Wisconsin, which includes the data processing center and operational staff offices for both guarantee support services provided by GLELSI to GLHEC and third-party guaranty agencies and lender servicing and origination functions. GLHEC and affiliates also maintain regional offices in Columbus, Ohio and St. Paul, Minnesota and customer support staff located nationally. In March 2005, Moody's Investors Service assigned its highest servicer quality (SQ) rating of SQ1 to GLELSI as a servicer of FFELP student loans. Moody's SQ ratings represent its view of a servicer's ability to prevent or mitigate losses across changing markets. Moody's rating incorporates an assessment of performance measurements including delinquency transition rates, cure rates and claim reject rates – all valuable indicators of a servicer's ability to get maximum returns from student loan portfolios. As of July 31, 2008, GLELSI serviced 2,202,581 student and parental accounts with an outstanding balance of $39.0 billion for over 1,400 lenders nationwide. As of July 31, 2008, 66% of the portfolio serviced by GLELSI was in repayment status, 7% was in grace status and the remaining 27% was in interim status. GLELSI will provide a copy of GLHEC's most recent consolidated financial statements on receipt of a written request directed to 2401 International Lane, Madison, Wisconsin 53704, Attention: Chief Financial Officer. GLELSI is currently undergoing IRS audits for the fiscal years 2004, 2005 and 2006. On March 24, 2008 GLELSI received an Internal Revenue Service Notice of Proposed Adjustment asserting taxes, penalties and interest applicable with regard to GLELSI's 2004, 2005 and 2006 tax years. The amount of the proposed adjustments for federal income tax and penalties is approximately $78 million; however, GLELSI is currently unable to estimate the loss or range of loss but views it as substantially less than the amount proposed and perhaps immaterial. GLELSI believes the proposed adjustment is unsupported by the facts or law and will vigorously contest the proposed adjustment. While GLELSI believes its tax practices were correct and that it will ultimately prevail, it is presently unable to offer any timeframe for possible resolution of this matter.

***Pennsylvania Higher Education Assistance Agency***. The Pennsylvania Higher Education Assistance Agency ("PHEAA") acts as a loan servicing agent for the issuer. PHEAA is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to an act of the Pennsylvania Legislature. Under its enabling legislation, PHEAA is authorized to issue bonds or notes, with the approval of the Governor of the Commonwealth of Pennsylvania for the purpose of purchasing making, or guaranteeing loans. Its enabling legislation also authorizes PHEAA to undertake the origination and servicing of loans made by PHEAA and others. PHEAA's headquarters are located in Harrisburg, Pennsylvania with regional offices located throughout Pennsylvania and additional office located in Delaware. As of June 30, 2008, it had approximately 2,300 employees. As of June 30, 2008, PHEAA had outstanding debt and/or credit facilities (under which the entire aggregate amount of funds available had not been drawn) in the amount (including amounts drawn or available under such credit facilities) of approximately $12.4 billion. As of June

30, 2008, PHEAA owned approximately $11.6 billion outstanding principal amount of student loans financed with the proceeds of its long-term debt, and had funds available for acquisition of student loans in the amount of approximately $109.4 million.

PHEAA's two principal servicing products are its full servicing operation (in which it performs all student loan servicing functions on behalf of its customers) and its remote servicing operation (in which it provides only data processing services to its customers that have their own servicing operations). As of June 30, 2008, PHEAA, was servicing under its full service operation approximately 2.8 million student loan accounts representing approximately $56.9 billion outstanding principal amount for more than 475 customers and under its remote servicing operation, approximately 2.0 million student borrowers representing approximately $34.7 billion outstanding principal amount for 7 customers. PHEAA's most recent audited financial reports are available at www.pheaa.org.

***Sallie Mae Servicing, a division of Sallie Mae, Inc. ("Sallie Mae Servicing")***. Sallie Mae Servicing acts as a loan servicer for the issuer. Sallie Mae Servicing previously was a for-profit Delaware limited partnership, the partnership interests of which were 100% owned by wholly-owned subsidiaries of SLM Corporation. Effective December 31, 2003, this limited partnership merged with, and became a division of, Sallie Mae, Inc., a for-profit Delaware corporation that also is a wholly-owned subsidiary of SLM Corporation. As of March 31, 2008, Sallie Mae Servicing serviced approximately $132.4 billion of FFELP loans, including approximately $11.7 billion of loans owned by affiliates, $111.2 billion of loans owned by 81 securitization trusts sponsored by Sallie Mae and $9.5 billion of loans owned by other third-party clients. Sallie Mae Servicing also serviced approximately $34.8 billion in non-FFELP loans, including approximately $0.5 billion in HEAL loans and $34.3 billion in non-federal, privately-insured loans. Sallie Mae Servicing's principal administrative offices are located in Reston, Virginia.

## APPENDIX C

### Description of Significant Guarantee Agencies

The following general information concerning each significant guarantee agency was supplied to the issuer by each significant guarantee agency and has not been verified by the issuer or the underwriters. No representation is made by the issuer or the underwriters as to the accuracy or completeness of such information. *See* "*CHARACTERISTICS OF THE STUDENT LOANS—Distribution of the Student Loans by Guarantee Agency as of the Statistical Cut-Off Date*" for a break-down of the percent of student loans guaranteed by each significant guarantee agency as of the statistical cut-off date.

***American Student Assistance***. Massachusetts Higher Education Assistance Corporation, doing business as American Student Assistance ("ASA"), a not-for-profit corporation organized in 1956, will guarantee a portion of the Financed Student Loans. ASA is one of the oldest and largest guaranty agencies in the United States, and is the designated guarantor for the Commonwealth of Massachusetts and the District of Columbia. Since 1956, ASA has been a provider of higher education financing products and services to students, parents, schools and lenders across the country, guaranteeing more than $43 billion in loans. Originally created by the General Court of the Commonwealth of Massachusetts as Massachusetts Higher Education Assistance Corporation, ASA currently acts on behalf of the U.S. Department of Education to ensure that the public policy purposes and regulatory requirements of the FFEL Program are met. ASA has its principal offices located at 100 Cambridge Street, Boston, MA 02114.

*Guaranty Volume.* The following table sets forth the original principal amount of FFEL Program Loans (excluding Consolidation Loans) guaranteed by ASA in each of the last five ASA fiscal years:

| ASA Fiscal Year (Ending June 30) | Net FFEL Program Loans Guaranteed by ASA (Millions) |
|---|---|
| 2003 | $ 914 |
| 2004 | 1,270 |
| 2005 | 1,746 |
| 2006 | 1,788 |
| 2007 | 2,367 |

Under the Higher Education Act, ASA and the U.S. Secretary of Education as of January 1, 2001 entered into a voluntary flexible agreement ("VFA"). Under the VFA, ASA returned its reserve funds that would otherwise have made up its Federal Reserve Fund through an escrow account in the name of the Department of Education. In the event a loan defaulted, ASA received funding from the Department of Education to act as a disbursing agent. The guarantee was, therefore, not limited by the funds on deposit in a federal reserve fund. Because ASA holds no federal reserve fund, the concept of a Reserve Ratio is inapplicable for the years 2003 through 2007. The VFA established a "fee for service" model under which ASA was rewarded through the payment of a portfolio maintenance fee for maintaining a healthy portfolio of loans in good standing. The agency was further incented to keep the loans in good standing and to work with borrowers to prevent default because the portfolio maintenance fee increased as ASA's trigger default rate improved over the national trigger default rate. ASA's efforts to prevent default are a part of its "Wellness" program of outreach to borrowers from the inception of the loan to educate them on their responsibilities and assist them in repayment.

The Department of Education cancelled ASA's VFA effective January 1, 2008. Because ASA is negotiating a new VFA with the Department of Education and because ASA is currently operating under the traditional guarantee agency funding model during the negotiations, ASA does not believe that the cancellation will materially adversely affect its business.

The information in the following tables has been provided by ASA from reports provided by or to the U.S. Department of Education. No representation is made by ASA as to the accuracy or completeness of the information.

*Recovery Rates.* A Guarantee Agency's recovery rate, which provides a measure of the effectiveness of the collection efforts against defaulting borrowers after the guarantee claim has been satisfied, is determined by dividing the aggregate amount recovered from borrowers by the aggregate amount of default claims paid by the Guarantee Agency. The table below sets forth the recovery rates for ASA as taken from the Department of Education Guarantee Agency Activity Report form 1130 or form 2000:

| Federal Fiscal Year (Ending September 30) | Cumulative Recovery Rate |
|---|---|
| 2003 | 79.4% |
| 2004 | 83.5 |
| 2005 | 83.0 |
| 2006 | 83.6 |
| 2007 | 80.8 |

*Claims Rate.* ASA's claims rate represents the percentage of loans in repayment at the beginning of a federal fiscal year which default during the ensuing federal fiscal year net of repurchases, refunds and rehabilitations. For the federal years 2003-2007, ASA's claims rate listed below have not exceeded 5%, and as a result, all claims of ASA have been fully reimbursed at the maximum allowable level by the Department of Education. See the description or summary of the FFEL Program herein for more detailed information concerning the FFEL Program. Nevertheless, there can be no assurance the Guarantee Agencies will continue to receive full reimbursement for such claims. The following table sets forth the claims rate of ASA for the last five federal fiscal years:

| Federal Fiscal Year (Ending September 30) | Claims Rate |
|---|---|
| 2003 | .9% |
| 2004 | .7 |
| 2005 | 1.0 |
| 2006 | 1.0 |
| 2007 | 1.1 |

*Net Loan Default Claims.* The following table sets forth the dollar value of Default Claims paid net of repurchases, refunds and rehabilitations for the last five years.

| ASA Fiscal Year (Ending June 30) | Default Claims (Millions) |
|---|---|
| 2003 | $ 80 |
| 2004 | 83 |
| 2005 | 168 |
| 2006 | 216 |
| 2007 | 320 |

*Default Recoveries.* The following table sets forth the amount of recoveries returned to the U.S. Department of Education for the last five years.

| ASA Fiscal Year (Ending June 30) | Default Recoveries (Millions) |
|---|---|
| 2003 | $ 79 |
| 2004 | 82 |
| 2005 | 78 |
| 2006 | 97 |
| 2007 | 128 |

***California Student Aid Commission***. The California Student Aid Commission **(**"CSAC") is the designated state student loan guaranty agency for the State of California ("State"), responsible for the State's participation in the FFEL Program pursuant to California Education Code Section 69760 et seq., and Section 428(c) of the Higher Education Act. CSAC's role as a guaranty agency is to provide a source of credit to assist students in meeting post-secondary education costs while attending eligible institutions of their choice.

As authorized under California law, CSAC has established an auxiliary organization in the form of a nonprofit public benefit corporation to provide operational and administrative services related to CSAC's participation in the FFEL Program. The auxiliary organization, EdFund, operates CSAC's federal student loan guaranty program pursuant to an operating agreement with CSAC. CSAC, as the designated state guaranty agency, continues its oversight of all revenues, expenses, and assets related to its status.

CSAC began guaranteeing student loans on April 1, 1979, and as of September 30, 2007, had cumulative principal guarantees outstanding of approximately $29.7 billion. As part of the FFEL Program, and pursuant to the 1998 Reauthorization Amendments to the Higher Education Act, the State established the Federal Student Loan Reserve Fund, referred to as CSAC's Federal Fund, and the Student Loan Operating Fund, referred to as CSAC's Operating Fund. CSAC's liability pursuant to the FFEL Program, including for any loan guarantees, is limited solely to the amounts contained in these two funds, and the State has no obligation to replenish these funds if exhausted.

As of September 30, 2007, CSAC's Federal Fund and Operating Fund balances were as follows: CSAC's Federal Fund had total assets of $126,538,170, total liabilities of $50,117,449 and total fund equity of $76,420,721; and CSAC's Operating Fund had total assets of $67,901,237, total liabilities of $36,379,875 and total fund equity of $31,521,362.

The 1998 Reauthorization Amendments require Guaranty Agencies to return to the Department of Education $250 million in reserve funds from fiscal years 2002 to 2007, with each agency's share being based on a formula prescribed in the 1998 Reauthorization Amendments. The Department of Education advised CSAC that its share of this recall is $24,871,909. The first installment payment of $8,456,449 was paid on August 26, 2002. The second installment of $8,207,730 was paid on August 31, 2006 and the final installment of $8,207,730 was paid on August 31, 2007. These payments are disclosed on the financial statements, and have been recognized as liabilities.

*Guaranty Volume.* CSAC guaranteed the following amounts for the last five (5) fiscal years ending September 30, as follows:

| Fiscal Year | FFELP Loan Volume (Millions) |
|---|---|
| 2003 | $ 4,421 |
| 2004 | 5,712 |
| 2005 | 6,577 |
| 2006 | 6,878 |
| 2007 | 6,765 |

The information in the following tables has been provided by CSAC from reports provided by or to the U.S. Department of Education. CSAC has not verified, and makes no representation as to the accuracy or completeness of, the information compiled by the Department of Education or as to any calculations other than as required by federal regulation.

*Reserve Ratio.* Pursuant to 34 C.F.R. 682.419, CSAC's reserve ratio (determined by dividing its fund balance by the total amount of loans outstanding) for the last five (5) fiscal years ending September 30, is as follows:

| Fiscal Year | Reserve Ratio |
|---|---|
| 2003 | 0.25% |
| 2004 | 0.25 |
| 2005 | 0.25 |
| 2006 | 0.25 |
| 2007 | 0.26 |

*Recovery Rate.* Pursuant to 34 C.F.R. 682.409, CSAC's recovery rate for each of the past five (5) fiscal years ending September 30, is as follows:

| Fiscal Year | Recovery Rate |
|---|---|
| 2003 | 27.23% |
| 2004 | 27.03 |
| 2005 | 31.12 |
| 2006 | 21.73 |
| 2007 | 19.85 |

*Claims Rate.* Pursuant to 34 C.F.R. 682.404, CSAC's claims rate for each of the past five (5) fiscal years ending September 30, is as follows:

| Fiscal Year | Claims Rate |
|---|---|
| 2003 | 2.07% |
| 2004 | 2.14 |
| 2005 | 2.81 |
| 2006 | 3.01 |
| 2007 | 3.31 |

***Great Lakes Higher Education Guaranty Corporation***. Great Lakes Higher Education Guaranty Corporation ("GLHEGC") is a Wisconsin nonstock, nonprofit corporation the sole member of which is Great Lakes Higher Education Corporation ("GLHEC"). GLHEGC's predecessor organization, GLHEC, was organized as a Wisconsin nonstock, nonprofit corporation and began guaranteeing student loans under the Higher Education Act in 1967. GLHEGC is the designated guarantee agency under the Higher Education Act for Wisconsin, Minnesota, Ohio, Puerto Rico and the Virgin Islands. On January 1, 2002, GLHEC (and GLHEGC directly and through its support services agreement with GLHEC), outsourced certain aspects of its student loan program guaranty support operations to GLELSI. GLHEGC continues as the "guaranty agency" as defined in Section 435(j) of the Higher Education Act and continues its default aversion, claim purchase and compliance, collection support and federal reporting responsibilities as well as custody and responsibility for all revenues, expenses and assets related to that status. GLHEGC (through its support services agreement with GLHEC) also performs oversight of all direct and outsourced student loan program operations. The primary operations center for GLHEC and its affiliates (including GLHEGC and GLELSI) is in Madison, Wisconsin, which includes the data processing center and operational staff offices for both guaranty and servicing functions. GLHEC and affiliates also maintain regional offices in Columbus, Ohio and St. Paul, Minnesota and customer support staff located nationally. GLHEGC will provide a copy of GLHEC's most recent consolidated financial statements on receipt of a written request directed to 2401 International Lane, Madison, Wisconsin 53704, Attention: Chief Financial Officer.

GLHEGC has entered into a Voluntary Flexible Agreement with the U.S. Department of Education pursuant to the 1998 Reauthorization Amendments. Under GLHEGC's agreement, which commenced October 1, 2000 and is currently effective through September 30, 2008, GLHEGC's revenues are tied directly to default aversion performance. Certain sources of GLHEGC's Operating Fund revenues are replaced by a single fee-for-service funding source tied directly to the percentage of delinquent loans that do not default during the measurement period. In lieu of statutory collection retention amounts, the U.S. Department of Education reimburses GLHEGC only for its actual post-default collection related expenses. This agreement also calls for GLHEGC to escrow the liquid assets of GLHEGC's Federal Fund for the benefit of the U.S. Department of Education. GLHEGC may also engage in negotiations with lenders to define whether the lender or GLHEGC will complete each of the due diligence requirements. Finally, this agreement allows GLHEGC to pilot a new approach to the claims review process, under which GLHEGC develops and implements with willing lenders and servicers a post-claim random sampling process that replaces the current claim-by-claim process.

The information in the following tables has been provided to the issuer from reports provided by or to the U.S. Department of Education and has not been verified by the issuer, GLHEGC or the initial purchasers. No representation is made by the issuer, GLHEGC or the initial purchasers as to the accuracy or completeness of this information. Prospective investors may consult the United States Department of Education Data Books and Web site http://www.ed.gov/finaid/prof/resources/data/opeloanvol.html for further information concerning GLHEGC or any other guarantee agency.

*Guarantee Volume*. GLHEGC's guaranty volume for each of the last five federal fiscal years, including Stafford, Unsubsidized Stafford, SLS, PLUS, Graduate PLUS and Consolidation loan volume, was as follows:

| Federal Fiscal Year | Guaranty Volume (Millions) |
|---|---|
| 2003 | $ 8,721.3 |
| 2004 | 7,707.6 |
| 2005 | 9,686.3 |
| 2006 | 12,797.2 |
| 2007 | 11,797.3 |

*Reserve Ratio*. Following are GLHEGC's reserve fund levels as calculated in accordance with 34 CFR 682.410(a)(10) for the last five federal fiscal years:

| Federal Fiscal Year | Federal Guaranty Reserve Fund Level [1/] |
|---|---|
| 2003 | 1.29% |
| 2004 | 0.99 |
| 2005 | 0.83 |
| 2006 | 0.72 |
| 2007 | 0.69 |

The Department of Education's website at http://www.fp.ed.gov/fp/attachments/activities_whatsnew/03-04-05-06-07ReserveRatioPublicReport.xls has posted reserve ratios for GLHEGC for federal fiscal years 2003, 2004, 2005, 2006 and 2007 of 1.168%, .646%, .578%, .517% and .550%, respectively. GLHEGC believes the Department of Education has not calculated the reserve ratio in accordance with the Act and the correct ratio should be 1.29%, .99%, .83%, .72% and .69%, respectively, as shown above and as explained in the following footnote. On November 17, 2006, the Department of Education advised GLHEGC that beginning in Federal Fiscal Year 2006 it will publish reserve ratios that include loan loss provision and deferred revenues. GLHEGC believes this change should more closely approximate the statutory calculation. According to the Department of Education, available cash reserves may not always be an accurate barometer of a guarantor's financial health.

[1/] In accordance with Section 428(c)(9) of the Higher Education Act, does not include loans transferred from the former Higher Education Assistance Foundation, Northstar Guarantee Inc., Ohio Student Aid Commission or Puerto Rico Higher Education Assistance Corporation. (The minimum reserve fund ratio under the Higher Education Act is .25%.)

*Claims Rate*. For the past five federal fiscal years, GLHEGC's claims rate has not exceeded 5%, and, as a result, the highest allowable reinsurance has been paid on all GLHEGC's claims. The actual claims rates are as follows:

| Fiscal Year | Claims Rate |
|---|---|
| 2003 | 1.27% |
| 2004 | .68 |
| 2005 | .51 |
| 2006 | .62 |
| 2007 | .77 |

As a result of various statutory and regulatory changes over the past several years, historical rates may not be an accurate indicator of current delinquency or default trends or future claims rates.

***Pennsylvania Higher Education Assistance Agency***. Pennsylvania Higher Education Assistance Agency ("PHEAA") is a body corporate and politic constituting a public corporation and government instrumentality created pursuant to the Pennsylvania Act of August 7, 1963, P.L. 549, as amended (the "Pennsylvania Act").

PHEAA has been guaranteeing student loans since 1964. As of June 30, 2008, PHEAA has guaranteed a total of approximately $42.7 billion principal amount of Stafford Loans and approximately $6.6 billion principal amount of PLUS Loans and SLS Loans, and approximately $52 billion principal amount of consolidation loans under the Higher Education Act. PHEAA initially guaranteed loans only to residents of the Commonwealth of Pennsylvania (the "Commonwealth") or persons who planned to attend or were attending eligible education institutions in the Commonwealth. In May, 1986, PHEAA began guaranteeing loans to borrowers that did not meet these residency requirements pursuant to its national guarantee program. Under the Pennsylvania Act, guarantee payments on loans under PHEAA's national guarantee program may not be paid from funds appropriated by the Commonwealth.

PHEAA has adopted a default prevention program consisting of (i) informing new borrowers of the serious financial obligations incurred by them and stressing the financial and legal consequences of failure to meet all terms of the loan, (ii) working with institutions to make certain that student borrowers are enrolled in sound education programs and that the proper individual enrollment records are being maintained, (iii) assisting lenders with operational programs to ensure sound lending policies and procedures, (iv) maintaining up-to-date student status and address records of all borrowers in the guaranty program, (v) initiating prompt collection actions with borrowers who become delinquent on their loans, do not establish repayment schedules or "skip," (vi) taking prompt action, including legal action and garnishment of wages, to collect on all defaulted loans, and (vii) adopting a general policy that no loan will be automatically "written off." Since the loan servicing program was initiated in 1974, PHEAA has never exceeded an annual default claims percentage of 5 percent and, as a result, federal reimbursement for default claims has thus far been at the maximum federal reimbursement level.

For the last five federal fiscal years (ending September 30), the annual default claims percentages have been as follows:

| Fiscal Year | Annual Default Claims |
|---|---|
| 2003 | 1.45% |
| 2004 | 1.09 |
| 2005 | 1.30 |
| 2006 | 1.42 |
| 2007 | 1.96 |

PHEAA has paid to the Department all amounts due by it pursuant to the federal Balanced Budget Act of 1997.

As of June 30, 2008, PHEAA had total federal reserve-fund assets of approximately $139.9 million, and a fund balance of approximately $4.5 million. Through June 30, 2008, the outstanding, amount of principal on loans that had been directly guaranteed by PHEAA under the Federal Family Education Loan Program was approximately $51 billion. In addition, as of June 30, 2008, PHEAA had operating-fund assets and non-Federal Family Education Loan Program assets totaling approximately $12.8 billion.

*Guarantee Volume.* PHEAA's guaranty volume (the approximate aggregate principal amount of federally reinsured education loans, including PLUS Loans but excluding federal Consolidation Loans) was as follows for the last five federal fiscal years (ending September 30):

| Fiscal Year | Guaranty Volume (Millions) |
|---|---|
| 2003 | $2,813 |
| 2004 | 3,131 |
| 2005 | 3,403 |
| 2006 | 3,792 |
| 2007 | 4,121 |

*Reserve Ratio.* Under current law, PHEAA is required to manage the Federal Fund so net assets are greater than 0.25% of the original principal balance of outstanding guarantees.

| Fiscal Year | Reserve Ratio |
|---|---|
| 2003 | 0.48% |
| 2004 | 0.34 |
| 2005 | 0.16 |
| 2006 | 0.20 |
| 2007 | 0.25 |

*Recovery Rates.* A guarantor's recovery rate, which provides a measure of the effectiveness of the collection efforts against defaulting borrowers after the guarantee claim has been satisfied, is determined for each year by dividing the current year collections by the total outstanding claim portfolio for the prior fiscal year. The table below shows the cumulative recovery rates for PHEAA for the five federal fiscal years (ending September 30) for which information is available:

| Fiscal Year | Recovery Rates |
|---|---|
| 2003 | 23.12% |
| 2004 | 25.48 |
| 2005 | 26.30 |
| 2006 | 33.93 |
| 2007 | 37.76 |

PHEAA's headquarters are located in Harrisburg, Pennsylvania. PHEAA's most recent audited financial reports are available at www.pheaa.org.

***Texas Guaranteed Student Loan Corporation***. The Texas Guaranteed Student Loan Corporation ("TGSLC") is a Texas public non-profit corporation organized in 1980 by the Texas legislature to operate as a guarantee agency in what is now known as the Federal Family Education Loan Program (FFELP), providing a Federally reinsured guaranty of eligible Stafford, PLUS and consolidation student loans. Located at 301 Sundance Parkway, Round Rock, Texas 78681, TGSLC is governed by ten directors appointed by the Governor of Texas in addition to the State Comptroller, and is staffed by approximately 700 employees.

*Guaranty Volume.* The following table sets forth the approximate aggregate principal amount of federally reinsured education loans (including loans under the Parent Loans for Undergraduate Students ("PLUS") program but excluding Federal Consolidation Loans) that have first become guaranteed in each of the following federal fiscal years calculated by subtracting the prior year end Form 2000 Line AR1 from that of the current year.

**Stafford, SLS and PLUS Loans Guaranteed**
**(dollars in millions)**

| Federal Fiscal Year (ending September 30) | TGSLC[(1)] |
|---|---|
| 2003 | $ 2,693 |
| 2004 | 3,239 |
| 2005 | 3,612 |
| 20006 | 4,016 |
| 2007 | 4,582 |

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

*Reserve Ratio.* The reserve ratio is determined by dividing its cumulative Federal Fund cash and investment reserves, by the original principal amount of the outstanding loans guaranteed. The term "cumulative cash reserves" means the difference between sources and uses of monies in the Federal Reserve Fund. The following table sets forth the respective reserve ratio for the following fiscal years:

**Reserve Ratio**

| **Federal Fiscal Year (ending September 30)** | **TGSLC[(1)]** |
|---|---|
| 2003 | 1.294% |
| 2004 | 0.974 |
| 2005 | 0.849 |
| 2006 | 0.735 |
| 2007 | 0.904 |

(1) Under provisions of a Voluntary Flexible Agreement with the Secretary, effective March 31, 2001, TGSLC escrowed all Federal Reserve assets in a joint TGSLC/US Department of Education (ED) account, and received 100% reinsurance from ED on all FFELP guarantee claims paid subsequent to that date. The VFA provides for reinstatement of TGSLC's Federal Reserve upon termination of the VFA. Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information. In October 2007, ED notified TG that it was exercising its right to terminate TG's VFA effective January 1, 2008, upon which TG would revert to the currently effective statutory guarantor funding model.

*Recovery Rates.* Determined by dividing the cumulative amount recovered from borrowers (prior year total plus current year Form 2000 Lines MR 10,10A, 11A, 11B, 12A, 13A, 17,19 and 27) by the cumulative amount of default claims paid (Form 2000 Line AR 8). The table below sets forth the recovery rates for the following fiscal years:

| **Federal Fiscal Year (ending September 30)** | **TGSLC[(1)]** |
|---|---|
| 2003 | 78.0% |
| 2004 | 81.3 |
| 2005 | 81.6 |
| 2006 | 80.9 |
| 2007 | 82.0 |

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

*Claims Rate*. For the following federal fiscal years, the claims rate is as follows:

| **Federal Fiscal Year (ending September 30)** | **TGSLC[(1)]** |
|---|---|
| 2003 | 2.53% |
| 2004 | 2.40 |
| 2005 | 3.48 |
| 2006 | 3.06 |
| 2007 | 3.01 |

(1) Information from TGSLC was provided by TGSLC from reports provided by or to the U.S. Department of Education and has not been verified by TGSLC. No representation is made by TGSLC as to the accuracy or completeness of the information.

***United Student Aid Funds, Inc.*** United Student Aid Funds, Inc. ("USA Funds") was organized as a private, nonprofit corporation under the General Corporation Law of the State of Delaware in 1960. In accordance with its Certificate of Incorporation, USA Funds: (i) maintains facilities for the provision of guarantee services with respect to approved education loans made to or for the benefit of eligible students who are enrolled at or plan to attend approved educational institutions; (ii) guarantees education loans made pursuant to certain loan programs under the Higher Education Act, as well as loans made under certain private loan programs; and (iii) serves as the designated guarantor for education-loan programs under the Higher Education Act of 1965, as amended ("the Act") in Arizona, Hawaii and certain Pacific Islands, Indiana, Kansas, Maryland, Mississippi, Nevada and Wyoming

USA Funds contracts with Sallie Mae, Inc., a wholly owned subsidiary of SLM Corporation. USA Funds also contracts with Student Assistance Corporation, a wholly owned subsidiary of SLM Corporation. SLM Corporation and its subsidiaries are not sponsored by nor are they agencies of the United States of America.

Effective December 13, 2004, USA Funds became the sole member of the Northwest Education Loan Association, a guarantor serving the states of Washington, Idaho and the Northwest.

For the purpose of providing loan guarantees under the Act, USA Funds has entered into various agreements (collectively, the "Federal Reinsurance Agreements") with the U.S. Secretary of Education (the "Secretary"). Pursuant to the Federal Reinsurance Agreements, USA Funds serves as a "guaranty agency" as defined in Section 435(j) of the Act. The Act allows the Secretary, after giving the guaranty agency notice and the opportunity for a hearing, to terminate the Federal Reinsurance Agreements if the Secretary determines that the administrative or financial condition of the guaranty agency jeopardizes the agency's continued ability to perform its responsibilities under its guaranty agreement, it is necessary to protect the federal financial interest, or to ensure the continued availability of loans to student- or parent-borrowers.

Reinsurance is paid to USA Funds by the Secretary in accordance with a formula based on the annual default rate of loans guaranteed by USA Funds under the Act and the disbursement date of loans. The rate of reinsurance ranges from 100 percent to 75 percent of USA Funds' losses on default-claim payments made to lenders. The Higher Education Amendments of 1998 (the "1998 Reauthorization Law") reduced the reinsurance coverage for loans in default made on or after Oct. 1, 1998, to a range from 95 percent to 75 percent based upon the annual default claims rate of the guaranty agency. Reinsurance on non-default claims remains at 100 percent.

The 1998 Reauthorization Law requires guaranty agencies to establish two (2) separate funds, a federal reserve fund (property of the United States) and an agency operating fund (property of the guaranty agency). The federal reserve fund is to be used to pay lender claims and to pay a default-aversion fee to the agency operating fund. The agency operating fund is to be used by the guaranty agency to pay its operating expenses.

The 1998 Reauthorization Law requires guaranty agencies to return to the Secretary $250 million in federal reserve funds from fiscal years 2002 to 2007. Each guaranty agency's share is based on a formula prescribed in the 1998 Reauthorization Law. USA Funds is in compliance with the provisions of the reserve fund requirements of the Act. USA Funds remitted $51.8 million to the Secretary in installments in 2002, 2006, and 2007.

Effective for all Federal Stafford and PLUS loans that USA Funds guaranteed on or after April 1, 2005, USA Funds waived the guarantee fee of up to 1 percent of the principal amount of new loans that federal law permitted a guarantor to assess. The Higher Education Reconciliation Act (HERA), which was signed into law in February 2006, requires all guarantors to collect and deposit into the federal reserve fund a federal default fee of 1 percent of the principal amount of all Stafford and PLUS loans guaranteed on or after July 1, 2006. USA Funds paid the federal default fee to the federal reserve fund from the operating fund on behalf of the borrower for all PLUS loans made by a lender that paid the federal default fee on behalf of its Stafford borrowers for loans guaranteed by USA Funds from July 1, 2006, through June 30, 2007, and for all PLUS loans guaranteed by USA Funds on or after July 1, 2007 through June 30, 2008, for graduate- and professional-student-borrowers. Effective for loans guaranteed beginning February 1, 2008, USA Funds will subsidize from its non-federal resources, one-half of the 1 percent federal default fee, when the originating lender buys down the other half of the fee for borrowers attending schools in USA Funds' designated and key states of Arizona, California, Florida, Hawaii, Indiana, Kansas, Maryland, Mississippi, Nevada and Wyoming, and for borrowers attending all other schools with final 2005 cohort-default rates of less than 7 percent.

As of September 30, 2007, USA Funds held assets on behalf of the federal reserve fund of approximately $316 million; federal reserve fund liabilities of approximately $69 million; and a fund balance of approximately $247 million. Through September 30, 2007, the outstanding, unpaid, aggregate amount of principal and interest on loans that had been directly guaranteed by USA Funds under the Federal Family Education Loan Program was approximately $87 billion. Also, as of September 30, 2007, USA Funds had operating fund assets totaling approximately $529 million.

USA Funds' "reserve ratio" complies with the U.S. Department of Education definition, which is determined by dividing the fund balance reserves, including non-cash allowance and other non-cash charges and amounts to be remitted to U.S. Department of Education for reserve recalls in 2003 through 2005, in a guarantors federal reserve fund, by the total amount of loans outstanding. Following this formula, the reserve ratio for the federal reserve fund administered by USA Funds for the last five fiscal years was as follows: 2007 – 0.280 percent; 2006 - 0.258 percent; 2005 – 0.452 percent; 2004 – 0.558 percent; 2003 – 0.670 percent.

USA Funds' "guarantee volume" is the approximate aggregate principal amount of federally reinsured education loans (including subsidized and unsubsidized Federal Stafford and Federal PLUS loans but excluding Federal Consolidation loans) guaranteed by USA Funds. For the last five fiscal years, the "guarantee volume" was as follows (in billions): 2007 - $15.581; 2006 - $12.586; 2005 – $10.724; 2004 – $9.907; 2003 – $9.587.

USA Funds' "recovery rate," which provides a measure of the effectiveness of the collection efforts against defaulted borrowers after the guarantee claim has been satisfied, is determined by dividing the amount recovered from borrowers by USA Funds during the fiscal year by the aggregate amount of default claims paid by USA Funds outstanding at the end of the prior fiscal year. For the last five fiscal years, the "recovery rate" was as follows: 2007 – 40.30 percent; 2006 – 38.03 percent; 2005 – 35.05 percent; 2004 – 35.47 percent; 2003 – 30.14 percent.

USA Funds' "loss rate" represents the percentage of claims purchased from lenders but not covered by reinsurance. For the last five fiscal years, the "loss rate" was as follows: 2007 – 4.07 percent; 2006 – 3.84 percent; 2005 - 3.46 percent; 2004 - 3.11 percent; 2003 - 2.86 percent.

In addition, USA Funds' "claims rate" represents the percentage of federal reinsurance claims paid by the Secretary during any fiscal year relative to USA Funds' existing portfolio of loans in repayment at the end of the prior fiscal year. For the last five fiscal years, the "claims rate" was as follows: 2007 – 2.13 percent; 2006 – 1.21 percent; 2005–1.41 percent; 2004—1.13 percent; 2003—1.37 percent.

USA Funds is headquartered in Fishers, Indiana. USA Funds will provide a copy of its most recent annual report upon receipt of a written request directed to its headquarters at P.O. Box 6028, Indianapolis, Indiana 46206-6028, Attention: Vice President, Corporate Communications.

No dealer, broker, salesman or other person has been authorized by the issuer or the underwriters to give any information or to make any representations, other than those contained in this offering memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the issuer, the master servicer, the subservicers, the guarantee agencies and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the underwriters or their counsel. The underwriters and their counsel have made no independent verification of the information contained herein relating to the issuer, the master servicer, the subservicers or the guarantee agencies. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this offering memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the issuer, the master servicer, the subservicers or the guarantee agencies since the date of this offering memorandum. This offering memorandum does not constitute a contract between the issuer or the underwriters, and any one or more of the purchasers or registered owners of the notes.

The indenture trustee and the eligible lender trustee have not participated in the preparation of and they assume no responsibility for this offering memorandum, and they have not reviewed or undertaken to verify any information contained herein.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Upon issuance, the notes will not be registered under the Securities Act of 1933 and will not be listed on any stock or other securities exchange in the United States. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed on the accuracy of this offering memorandum or approved the notes for sale. Any contrary representation is a criminal offense. The indenture will not be qualified under the Trust Indenture Act of 1939.

**TABLE OF CONTENTS**


Page

SUMMARY....1
RISK FACTORS....14
FORWARD-LOOKING STATEMENTS....26
DESCRIPTION OF THE NOTES....26
PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES AND EXPECTED MATURITIES OF THE NOTES....36
CREDIT ENHANCEMENT....37
SECURITY AND SOURCES OF PAYMENT FOR THE NOTES....39
USE OF PROCEEDS....40
ACQUISITION OF THE STUDENT LOANS....40
CHARACTERISTICS OF THE STUDENT LOANS....41
REGARDING THE STUDENT LOANS....48
THE ISSUER....50
THE MASTER SERVICER....51
DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM....53
DESCRIPTION OF THE GUARANTEE AGENCIES....65
DESCRIPTION OF THE HEALTH EDUCATION ASSISTANCE LOAN PROGRAM....69
DESCRIPTION OF THE INDENTURE....73
CONTINUING DISCLOSURE OF INFORMATION....83
FEDERAL INCOME TAX CONSEQUENCES....85
STATE TAX CONSIDERATIONS....90
ERISA CONSIDERATIONS....91
UNDERWRITING....93
LEGAL MATTERS....94
RATINGS....94
ABSENCE OF LITIGATION....94
REPORTS TO NOTEHOLDERS....94
MISCELLANEOUS....95

APPENDIX A - Glossary of Defined Terms
APPENDIX B - Description of Subservicers
APPENDIX C - Description of Significant Guarantee Agencies


**$_____**

# LEON HIGHER EDUCATION AUTHORITY, INC.

## STUDENT LOAN ASSET-BACKED NOTES

**Consisting of**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008A-1**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008A-2**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008A-3**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008A-4**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008A-5**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008B-1**

**$_____ LIBOR Rate Student Loan Asset-Backed Notes, Series 2008C-1**

**OFFERING MEMORANDUM**

**Citi**

**[_____]**

**[_____]**

**EXHBIT 2**

**Preliminary Prospectus relating to the Citi Notes**

The information in this Preliminary Prospectus Supplement is not complete and may be changed. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. This Preliminary Prospectus Supplement is not an offer to sell, nor does it seek an offer to buy, securities in any jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER 25, 2008

PROSPECTUS SUPPLEMENT
(to prospectus dated March 2, 2006)

**$**

# Floating Rate Notes due 20

The Citigroup Notes will mature on , 20 . The Citigroup Notes will bear interest at a floating rate equal to three-month LIBOR plus %. Interest on the Citigroup Notes is payable quarterly on the th day of each , , and , commencing , 2009. The Citigroup Notes may not be redeemed prior to maturity unless changes involving United States taxation occur which could require Citigroup to pay additional amounts, as described under "Description of Debt Securities — Payment of Additional Amounts" and "— Redemption for Tax Purposes" in the accompanying prospectus.

The Citigroup Notes will be offered to the public at a price 10% below par. See "United States Federal Income Tax Considerations" for more information regarding the tax implications of the Citigroup Notes' original issue discount ("OID").

The Citigroup Notes will not be listed on any exchange. It is unlikely there will be any secondary market for the Citigroup Notes. See "Risk Factors — There May Be No Trading Market For The Citigroup Notes."

**Investing in the Citigroup Notes involves a number of risks. See the "Risk Factors" section beginning on page S-4, where specific risks associated with the Citigroup Notes are described, along with the other information in this prospectus supplement and accompanying prospectus before making your investment decision.**

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these Citigroup Notes or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

| | Per Note | Total |
|---|---|---|
| Public Offering Price | 90.00% | $ |
| Placement Agent's Fee | 0.00% | $0.00 |
| Proceeds to Citigroup (before expenses) | 90.00% | $ |

Interest on the Citigroup Notes will accrue from , 2008 to the date of delivery. Net proceeds to Citigroup (after expenses) are expected to be approximately $ .

The placement agent is offering the Citigroup Notes subject to various conditions. The placement agent expects that the Citigroup Notes will be ready for delivery in book-entry form only through The Depository Trust Company ("DTC") on or about , 2008.

The Citigroup Notes are not deposits or savings accounts but are unsecured debt obligations of Citigroup and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality.

The placement agent for the Citigroup Notes is:

Citi

, 2008

## TABLE OF CONTENTS


| | Page |
|---|---|
| **Prospectus Supplement** | |
| Explanatory Note | S-3 |
| Risk Factors | S-4 |
| Selected Historical Financial Data | S-4 |
| Description of Citigroup Notes | S-5 |
| United States Federal Income Tax Considerations | S-6 |
| Plan of Distribution | S-9 |
| Legal Matters | S-13 |
| **Prospectus** | |
| Prospectus Summary | 1 |
| Forward-Looking Statements | 7 |
| Citigroup Inc. | 7 |
| Use of Proceeds and Hedging | 8 |
| European Monetary Union | 9 |
| Description of Debt Securities | 9 |
| United States Tax Documentation Requirements | 34 |
| United States Federal Income Tax Considerations | 36 |
| Currency Conversions and Foreign Exchange Risk Affecting Debt Securities Denominated in a Foreign Currency | 43 |
| Description of Common Stock Warrants | 44 |
| Description of Index Warrants | 46 |
| Description of Capital Stock | 49 |
| Description of Preferred Stock | 50 |
| Description of Depositary Shares | 53 |
| Description of Stock Purchase Contracts and Stock Purchase Units | 55 |
| Plan of Distribution | 56 |
| ERISA Considerations | 58 |
| Legal Matters | 59 |
| Experts | 59 |


You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. Citigroup is not, and the placement agent is not, making an offer to sell the Citigroup Notes in any jurisdiction where the offer or sale is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus, as well as information Citigroup previously filed with the Securities and Exchange Commission and incorporated by reference herein, is accurate as of any date other than the date of the relevant document.

Each of the prospectus and prospectus supplement is an advertisement for the purposes of applicable measures implementing the European Council Directive 2003/71/EC (such Directive, together with any applicable implementing measures in the relevant home Member State under such Directive, the "Prospectus Directive").

The distribution or possession of this prospectus and prospectus supplement in or from certain jurisdictions may be restricted by law. Persons into whose possession this prospectus and prospectus supplement come are required by Citigroup and the placement agent to inform themselves about, and to observe any such restrictions, and neither Citigroup nor the placement agent accepts any liability in relation thereto. See "Plan of Distribution."

This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and are not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted or where the person making the offer or sale is not qualified to do so or to any person to whom it is not permitted to make such offer or sale. See "Plan of Distribution."

References in this prospectus supplement to "dollars", "$" and "U.S. $" are to United States dollars.

## EXPLANATORY NOTE

On September 25, 2008, Leon Higher Education Authority, Inc. ("Leon"), a nonprofit corporation organized in 2005 under the Texas Non-Profit Corporation Act, launched thirteen separate offers to purchase certain outstanding senior student loan-backed securities issued by seven non-profit corporations managed by The Brazos Higher Education Service Corporation (each, a "Leon Offer" and together, the "Leon Offers").

For a period of time (described in the following paragraphs) following the date on which a Leon Offer expires, holders of senior student loan-backed securities whose securities are accepted for purchase in that Leon Offer ("eligible participants") will have the option to elect to apply a portion of the cash they are entitled to receive (such portion being equal to $540, $630 or $720 per $1,000 principal amount of senior student loan-backed securities they held, depending on the particular Leon Offer) to purchase Citigroup Notes (in a par amount of $600, $700 or $800 per $1,000 principal amount of senior student loan-backed securities, respectively). Eligible participants in the Leon Offers that elect to exercise this option will receive the Citigroup Notes in lieu of a portion of the cash otherwise deliverable to them at settlement of the relevant Leon Offer.

**In order to be eligible to elect and to purchase the Citigroup Notes, eligible participants in the Leon Offers must give a nonbinding indication of their interest in doing so at the time they tender their senior student loan-backed securities.** Any such indication of making an election will be nonbinding and will not be effective to make an election. Such indication of interest can be made only on the letter of transmittal for the Leon Offers (including through a letter of transmittal that is deemed to be delivered under an agent's message through DTC's Automated Tender Offer Program).

Citigroup will announce the interest rate and maturity of the Citigroup Notes in a press release issued two business days prior to the expiration of any Leon Offer. If, after the interest rate and maturity of the Citigroup Notes have been announced, the expiration of any Leon Offer is extended by more than two business days, Citigroup will reset and re-announce those terms on the second business day prior to the new expiration date. During the period beginning on the business day following the expiration of that Leon Offer and ending three business days thereafter, eligible participants in the Leon Offers may accept or reject the terms of the Citigroup Notes offered. To accept the terms offered, an eligible participant must arrange for appropriate instructions to be entered on its behalf through DTC's Automated Tender Offer Program (which will generally be arranged by a participant's broker, dealer, commercial bank, trust company or other nominee).

If during the period of time described above, occuring after the expiration of the relevant Leon Offer, an eligible participant in the Leon Offers does not affirmatively elect to purchase the Citigroup Notes, that participant will receive all of the cash to which it is entitled in the relevant Leon Offer and no Citigroup Notes will be delivered to that participant. Participants in the Leon Offers may tender their senior student loan-backed securities without making an election to purchase the Citigroup Notes and without purchasing the Citigroup Notes.

Eligible participants in the Leon Offers making a valid election will receive cash consideration at settlement of the relevant Leon Offer plus a par amount of the Citigroup Notes that together are equal to the principal amount of the senior student loan-backed securities they have tendered (plus accrued interest). As set forth below, the interest rate borne by the Citigroup Notes will be set at a level expected to cause them to trade at a significant discount to par and initially at a market price that approximates the cash paid for such Citigroup Notes. Therefore, the election, when compared to receiving all cash at settlement of the Leon Offers, is not intended to increase the total value offered to eligible participants in the Leon Offers. See "Risk Factors — Should a Trading Market For The Citigroup Notes Develop, the Citigroup Notes Likely Will Trade at Prices Significantly Below Par."

**None of Leon, The Brazos Higher Education Service Corporation, Inc. and the seven non-profit corporations participating in the Leon Offers are affiliated with Citigroup, are making any offers in connection with the Citigroup Notes, have any obligations under the Citigroup Notes and did not prepare and are not responsible for this prospectus supplement or the accompanying prospectus. Citigroup will not have any obligation under the Leon Offers and Citigroup did not prepare and is not responsible for any offering document relating to the Leon Offers. None of the offering documents relating to the Leon Offers are part of this prospectus supplement or the accompanying prospectus and none are incorporated by reference herein. The information regarding the Leon Offers in this prospectus supplement was derived from the offering documents relating to the Leon Offers, and Citigroup has no responsibility for such information.**

## RISK FACTORS

*Your investment in the Citigroup Notes will involve several risks. You should carefully consider the following discussion of risks, as well as the other information in this prospectus supplement and accompanying prospectus, before deciding whether an investment in the Citigroup Notes is suitable for you.*

**There May Be No Trading Market For The Citigroup Notes.**

Citigroup will not list the Citigroup Notes on any securities exchange, and it is unlikely that any secondary market for the Citigroup Notes will develop. Because no assurance can be given as to the liquidity of, or trading market for, the Citigroup Notes, investors should be prepared to hold the Citigroup Notes to maturity.

**Should A Trading Market For The Citigroup Notes Develop, The Citigroup Notes Likely Will Trade At Prices Significantly Below Par.**

The Citigroup Notes have been structured to bear interest at a level expected to cause them to trade at a significant discount to par and initially at a market price that approximates the cash paid for the Citigroup Notes, which will be an amount 10% below par. Thus, should a market for the Citigroup Notes develop (which is unlikely), the Citigroup Notes are expected to trade at a significant discount to par. Investors must independently consider the value of the Citigroup Notes.

**The Citigroup Notes Are Not Intended To Increase The Total Value Offered To Holders of Senior Student Loan-Backed Securities Participating In The Leon Offers.**

Although eligible participants in the Leon Offers that elect and actually purchase the Citigroup Notes will receive cash consideration at settlement of the relevant Leon Offer plus a par amount of the Citigroup Notes that together are equal to the principal amount of the senior student loan-backed securities they have tendered plus accrued interest, the interest rate borne by the Citigroup Notes will be set at a level expected to cause them to trade at a significant discount to par and initially at a market price that approximates the cash paid for the Citigroup Notes. Thus, the Citigroup Notes are not intended to increase the total value offered to eligible participants in the Leon Offers.

## SELECTED HISTORICAL FINANCIAL DATA

We are providing or incorporating by reference in this prospectus supplement selected historical financial information of Citigroup. We derived this information from the consolidated financial statements of Citigroup for each of the periods presented. The information is only a summary and should be read together with the financial information incorporated by reference in this prospectus supplement and the accompanying prospectus, copies of which can be obtained free of charge. See "Where You Can Find More Information" on page 6 of the accompanying prospectus.

The consolidated audited annual financial statements of Citigroup for the fiscal years ended December 31, 2007 and 2006, and its consolidated unaudited financial statements for the periods ended June 30, 2008 and 2007, are incorporated herein by reference.

| | At or for the Six Months Ended June 30, | | At or for the Year Ended December 31, | | |
|---|---|---|---|---|---|
| | 2008 | 2007 | 2007 | 2006 | 2005 |
| | (dollars in millions, except per share amounts) | | | | |
| **Income Statement Data:** | | | | | |
| Total revenues, net of interest expense | $ 31,672 | $ 51,514 | $ 80,707 | $ 88,453 | $ 82,147 |
| Income (loss) from continuing operations | (7,340) | 11,111 | 3,427 | 21,022 | 19,359 |
| Net income (loss) | (7,606) | 11,328 | 3,617 | 21,538 | 24,589 |
| Dividends declared per common share(1) | 0.64 | 1.08 | 2.16 | 1.96 | 1.76 |
| **Balance Sheet Data:** | | | | | |
| Total assets | $2,100,385 | $2,220,715 | $2,187,480 | $1,884,167 | $1,493,886 |
| Total deposits | 803,642 | 771,761 | 826,230 | 712,041 | 591,828 |
| Long-term debt | 417,928 | 340,077 | 427,112 | 288,494 | 217,499 |
| Total stockholders' equity | 136,405 | 127,603 | 113,447 | 119,632 | 112,386 |

(1) Amounts represent Citigroup's historical dividends per common share and have been adjusted to reflect stock splits.

## DESCRIPTION OF CITIGROUP NOTES

*The following description of the particular terms of the Citigroup Notes supplements the description of the general terms set forth in the accompanying prospectus. It is important for you to consider the information contained in the accompanying prospectus and this prospectus supplement before making your decision to invest in the Citigroup Notes. If any specific information regarding the Citigroup Notes in this prospectus supplement is inconsistent with the more general terms of the notes described in the prospectus, you should rely on the information contained in this prospectus supplement.*

The Citigroup Notes offered by this prospectus supplement are a series of senior debt securities issued under Citigroup's senior debt indenture. The Citigroup Notes will initially be limited to an aggregate par amount of $ .

The Citigroup Notes will be issued only in fully registered form without coupons, in denominations of $1.00 and integral multiples of $1.00 in excess thereof. All the Citigroup Notes are unsecured obligations of Citigroup and will rank equally with all other unsecured senior indebtedness of Citigroup, whether currently existing or hereinafter created.

Citigroup may, without notice to or consent of the holders or beneficial owners of the Citigroup Notes, issue additional Citigroup Notes having the same ranking, interest rate, maturity and other terms as the Citigroup Notes. Any such additional Citigroup Notes issued could be considered part of the same series of Citigroup Notes under the indenture as the Citigroup Notes.

The Citigroup Notes will be issued on , 2008. The Citigroup Notes will bear interest at a floating rate from and including , 2008 to but excluding their maturity date (which is , 20 ). The interest rate for each interest period will be a per annum rate equal to three-month LIBOR plus %. Interest on the Citigroup Notes will be paid quarterly on the th day of each , , and , commencing , 2009. The interest rate for the first and each subsequent interest period will be determined using as the designated LIBOR page the Reuters Screen LIBOR01 Page as described under "Description of Debt Securities — Interest Rate Determination — Floating Rate Notes — LIBOR Notes" and "— Payments of Principal and Interest" in the accompanying prospectus.

The Citigroup Notes have been assigned CUSIP No. 172967 .

## UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

### Introduction

The following discussion, which replaces the section in the prospectus titled "United States Federal Income Tax Considerations," is a general summary of United States federal income tax considerations that may be relevant to a beneficial owner of a note. The summary is based on:

- laws;
- regulations;
- rulings; and
- decisions now in effect,

all of which may change, possibly with retroactive effect. This summary deals only with beneficial owners that will hold Citigroup Notes as capital assets and that acquire Citigroup Notes in the original offering. This summary does not address all of the United States federal income tax considerations that may be relevant to a beneficial owner of Citigroup Notes. For example, this summary does not address tax considerations applicable to investors to whom special tax rules may apply, including:

- banks or other financial institutions;
- tax-exempt entities;
- insurance companies;
- regulated investment companies;
- common trust funds;
- entities that are treated for United States federal income tax purposes as partnerships or other pass-through entities;
- controlled foreign corporations;
- dealers in securities or currencies;
- persons that will hold the Citigroup Notes as a hedge or in order to hedge against currency risk or as a part of an integrated investment, including a straddle or conversion transaction, comprised of a note and one or more other positions; or
- United States holders (as defined below) that have a functional currency other than the U.S. dollar.

The discussion herein treats the Citigroup Notes as issued for cash equal to their stated issue price. For a discussion of possible alternative treatments of Citigroup Notes issued in connection with the Leon Offers, prospective investors should consult the tax disclosure for the Leon Offers.

Prospective investors should consult their tax advisors in determining the tax consequences to them of purchasing, holding, and disposing of the Citigroup Notes, including the application to their particular situation of the United States federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

As used in this summary, the term "United States holder" means a beneficial owner of a note who is a United States person. The term "non-United States holder" means a beneficial owner of a note who is not a United States holder.

**United States Holders**

***Payments of Interest***

Payments of qualified stated interest, as defined below under "Original Issue Discount," on a note will be taxable to a United States holder as ordinary interest income at the time that such payments are accrued or are received, in accordance with the United States holder's method of tax accounting.

***Original Issue Discount***

The Citigroup Notes will be treated as issued with original issue discount ("OID") because their stated redemption price at maturity exceeds their issue price by more than a *de minimis* amount of 0.25% of the note's stated redemption price at maturity multiplied by the number of complete years to maturity. The stated redemption price at maturity of a note is the sum of all payments due under the note, other than payments of qualified stated interest. The term qualified stated interest generally means stated interest that is unconditionally payable in cash or property, other than debt instruments of the issuer, at least annually during the entire term of the note at a single fixed rate of interest or based on one or more interest indices (such as LIBOR). United States holders generally must accrue OID in gross income over the term of the Citigroup Notes on a constant yield basis, regardless of their regular method of tax accounting. As a result, United States holders generally will recognize taxable income in respect of a note in advance of the receipt of cash attributable to such income.

For each taxable year of a United States holder, the amount of OID that must be included in gross income in respect of a note will be the sum of the daily portions of OID for each day during such taxable year or any portion of such taxable year in which such a United States holder held the note. Such daily portions are determined by allocating to each day in an accrual period a pro rata portion of the OID allocable to that accrual period. Accrual periods may be of any length and may vary in length over the term of a note. However, accrual periods may not be longer than one year and each scheduled payment of principal or interest must occur on the first day or the final day of a period.

The amount of OID allocable to any accrual period generally will equal (1) the product of the note's adjusted issue price at the beginning of such accrual period multiplied by its yield to maturity (as adjusted to take into account the length of such accrual period), less (2) the amount, if any, of qualified stated interest allocable to that accrual period. The adjusted issue price of a note at the beginning of any accrual period will equal the issue price of the note, as defined above, (1) increased by previously accrued OID from prior accrual periods, and (2) reduced by any payment made on such note, other than payments of qualified stated interest, on or before the first day of the accrual period. The yield to maturity of a note is the discount rate (appropriately adjusted to reflect the length of accrual periods) that causes the present value on the issue date of all payments on the note to equal the issue price. Both the yield to maturity and the qualified stated interest will be determined for these purposes as though the note will bear interest in all periods at a fixed rate generally equal to the value, as of the issue date, of the floating interest rate on the note.

All payments on a note, other than payments of qualified stated interest, will generally be viewed first as payments of previously accrued OID, to the extent thereof, with payments attributed first to the earliest accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to OID, whether in connection with a payment of an amount that is not qualified stated interest or the disposition of the note, a United States holder will recognize ordinary income or loss measured by the difference between (1) the amount received and (2) the amount accrued.

***Purchase, Sale and Retirement of Citigroup Notes***

A United States holder's tax basis in a note generally will equal the issue price of such note to such holder

- increased by any amounts includible in income by the holder as OID and
- reduced by any payments other than payments of qualified stated interest made on such note.

Upon the sale, exchange, retirement or other taxable disposition (collectively, a "disposition") of a note, a United States holder generally will recognize gain or loss equal to the difference between (1) the amount realized on the disposition, less any accrued qualified stated interest, which will be taxable as ordinary income in the manner described above under "Payments of Interest," and (2) the United States holder's adjusted tax basis in such note.

Gain or loss recognized by a United States holder on the disposition of a note will generally be long term capital gain or loss if the United States holder's holding period for the note exceeds one year at the time of such disposition.

*Information Reporting and Backup Withholding*

Information returns may be required to be filed with the IRS relating to payments made to particular United States holders of Citigroup Notes. In addition, United States holders may be subject to a backup withholding tax on such payments if they do not provide their taxpayer identification numbers in the manner required, fail to certify that they are not subject to backup withholding tax, or otherwise fail to comply with applicable backup withholding tax rules. United States holders may also be subject to information reporting and backup withholding tax with respect to the proceeds from a disposition of the Citigroup Notes. Any amounts withheld under the backup withholding rules will be allowed as a credit against the United States holder's United States federal income tax liability provided the required information is timely furnished to the IRS.

**Non-United States Holders**

Under current United States federal income tax law:

- withholding of United States federal income tax will not apply to a payment on a note to a non-United States holder, provided that,

  (1) the holder does not actually or constructively own 10 percent or more of the total combined voting power of all classes of stock of Citigroup entitled to vote and is not a controlled foreign corporation related to Citigroup through stock ownership;

  (2) the beneficial owner provides a statement signed under penalties of perjury that includes its name and address and certifies that it is a non-United States holder in compliance with applicable requirements; and

  (3) neither Citigroup nor its paying agent has actual knowledge or reason to know that the beneficial owner of the note is a United States holder.

- withholding of United States federal income tax will generally not apply to any gain realized on the disposition of a note.

Despite the above, if a non-United States holder is engaged in a trade or business in the United States (or, if certain tax treaties apply, if the non-United States holder maintains a permanent establishment within the United States) and the interest on the Citigroup Notes is effectively connected with the conduct of that trade or business (or, if certain tax treaties apply, attributable to that permanent establishment), such non-United States holder will be subject to United States federal income tax on the interest on a net income basis in the same manner as if such non-United States holder were a United States holder. In addition, a non-United States holder that is a foreign corporation engaged in a trade or business in the United States may be subject to a 30% (or, if certain tax treaties apply, such lower rates as provided) branch profits tax.

Any gain realized on the disposition of a note generally will not be subject to United States federal income tax unless:

- that gain is effectively connected with the non-United States holder's conduct of a trade or business in the United States (or, if certain tax treaties apply, is attributable to a permanent establishment maintained by the non-United States holder within the United States); or

- the non-United States holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

In general, backup withholding and information reporting will not apply to a payment of interest on a note to a non-United States holder, or to proceeds from the disposition of a note by a non-United States holder, in each case, if the holder certifies under penalties of perjury that it is a non-United States holder and neither Citigroup nor its paying agent has actual knowledge to the contrary. Any amounts withheld under the backup withholding rules will be refunded or credited against the non-United States holder's United States federal income tax liability provided the required information is timely furnished to the IRS. In certain circumstances, if a note is not held through a qualified intermediary, the amount of payments made on such note, the name and address of the beneficial owner and the amount, if any, of tax withheld may be reported to the IRS.

## PLAN OF DISTRIBUTION

Citigroup Global Markets Inc. is acting as placement agent in connection with the Citigroup Notes. The placement agent is acting solely as agent for Citigroup and not as principal and, accordingly, is obligated only to use "reasonable efforts" to place the Citigroup Notes with investors. Citigroup will sell the notes directly to each purchaser with the assistance of the placement agent. The terms and conditions set forth in the agency agreement dated , 2008 govern the agency arrangement between Citigroup and the placement agent.

The agency agreement provides that the obligations of the placement agent under the agency agreement are subject to the approval of legal matters by counsel to the placement agent and to other conditions. Citigroup has agreed to indemnify the placement agent against liabilities relating to material misstatements and omissions.

We estimate that the total expenses of this offering will be $ .

The Citigroup Notes are a new series of securities with no established trading market and will not be listed on any securities exchange. Moreover, it is unlikely that any secondary market for the Citigroup Notes will develop. Accordingly, Citigroup can make no assurance as to the liquidity of, or trading markets for, the Citigroup Notes.

The placement agent and its affiliates may engage in transactions (which may include commercial banking transactions) with, and perform services for, Citigroup or one or more of its affiliates in the ordinary course of business.

Citigroup Global Markets Inc., the placement agent for this offering, is a subsidiary of Citigroup. Accordingly, the offering of the notes will conform with the requirements set forth in Rule 2720 of the NASD Conduct Rules adopted by the Financial Industry Regulatory Authority.

Although unlikely to occur, this prospectus supplement, together with the accompanying prospectus, may also be used by Citigroup's broker-dealer subsidiaries or other subsidiaries or affiliates of Citigroup in connection with offers and sales of the notes in market-making transactions at negotiated prices related to prevailing market prices at the time of sale. Any of these subsidiaries may act as principal or agent in such transactions.

We expect that delivery of the Citigroup Notes will be made against payment therefor on or about , 2008, which may be as many as five days after the first contract to sell the Citigroup Notes was formed. Under Rule 15c6-1 of the Securities Exchange Act, trades in the secondary market generally are required to settle in three business days, unless the parties to any such trade expressly agree otherwise. Although it is unlikely there will be any secondary market for the Citigroup Notes — see "Risk Factors" above — should such a market develop, purchasers who wish to trade the notes on a date more than three business days after the date they contracted to purchase the Citigroup Notes will be required, by virtue of the fact that those Citigroup Notes initially will not settle in T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement and should consult their own advisor.

The Citigroup Notes are being offered globally for sale in the United States, Europe, Asia and elsewhere where it is lawful to make such offers.

Purchasers of the Citigroup Notes may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the issue price set forth on the cover page of this document.

The placement agent has agreed that it will not offer any of the Citigroup Notes, directly or indirectly, or distribute this prospectus supplement or the accompanying prospectus or any other offering material relating to the Citigroup Notes, in or from any jurisdiction, except when to the best knowledge and belief of the placement agent it is permitted under applicable laws and regulations. In so doing, the placement agent will not impose any obligations on Citigroup, except as set forth in the agency agreement.

Citigroup's obligation to issue the Citigroup Notes is contingent upon receipt of the offering price, closing of the relevant Leon Offer, Citigroup Global Markets Inc.'s performance as placement agent pursuant to the terms and conditions set forth in the agency agreement described above and the absence of any of the following conditions:

(a) there shall have been instituted, threatened or be pending any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person, in connection with this offering, that is, or is reasonably likely to be, materially adverse to the conduct and consummation of this offering or the value of the Citigroup Notes;

(b) there shall have been (i) any statute, rule, regulation, judgment, order, injunction, notice or communication promulgated, entered, enforced, enacted, issued or deemed applicable by any domestic or foreign federal, state or municipal governmental authority or court which directly or indirectly prohibits, or makes illegal the acceptance for payment, payment for or purchase of some or all of the Citigroup Notes or the consummation of this offering or (ii) any action or proceeding before or by any court, governmental, regulatory or administrative agency or instrumentality, or by any other person seeking similar relief; or

(c) there shall have occurred (i) any general suspension of, or shortening of hours for, or limitation on prices for, trading in securities in the United States securities or financial markets, (ii) a material impairment in the United States trading market for debt securities, (iii) a declaration of a banking moratorium or any suspension of payments in respect of banks in the United States (whether or not mandatory), (iv) any limitation (whether or not mandatory) by any government or governmental, administrative or regulatory authority or agency, domestic or foreign, or other event that might affect the extension of credit by banks or other lending institutions, (v) a commencement of a war or armed hostilities or other national or international calamity directly or indirectly involving the United States or (vi) in the case of any of the foregoing existing on the date hereof, a material acceleration or worsening thereof.

**Notice to Prospective Investors in the European Economic Area**

In relation to each member state of the European Economic Area that has implemented the Prospectus Directive (each, a relevant member state), with effect from and including the date on which the Prospectus Directive is implemented in that relevant member state (the relevant implementation date), an offer of Citigroup Notes described in this prospectus supplement may not be made to the public in that relevant member state prior to the publication of a prospectus in relation to the Citigroup Notes that has been approved by the competent authority in that relevant member state or, where appropriate, approved in another relevant member state and notified to the competent authority in that relevant member state, all in accordance with the Prospectus Directive, except that, with effect from and including the relevant implementation date, an offer of securities may be offered to the public in that relevant member state at any time:

- to any legal entity that is authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- to any legal entity that has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- to fewer than 100 natural or legal persons (other than qualified investors as defined below) subject to obtaining the prior consent of the representatives for any such offer; or
- in any other circumstances that do not require the publication of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each purchaser of Citigroup Notes described in this prospectus supplement located within a relevant member state will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For purposes of this provision, the expression an "offer to the public" in any relevant member state means the communication in any form and by any means of sufficient information on the terms of the offer and the securities to be offered so as to enable an investor to decide to purchase or subscribe the securities, as the expression may be varied in that member state by any measure implementing the Prospectus Directive in that member state, and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each relevant member state.

The sellers of the Citigroup Notes have not authorized and do not authorize the making of any offer of Citigroup Notes through any financial intermediary on their behalf, other than offers made by the placement agent with a view to the final placement of the Citigroup Notes as contemplated in this prospectus supplement. Accordingly, no purchaser of the Citigroup Notes is authorized to make any further offer of the Citigroup Notes on behalf of the sellers or the placement agent.

**Notice to Prospective Investors in the United Kingdom**

This prospectus supplement is only being distributed to, and is only directed at, persons in the United Kingdom that are qualified investors within the meaning of Article 2(1)(e) of the Prospectus Directive that are also (i) investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order") or (ii) high net worth entities, and other persons to whom it may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as "relevant persons"). This prospectus supplement and its contents are confidential and should not be distributed, published or reproduced (in whole or in part) or disclosed by recipients to any other persons in the United Kingdom. Any person in the United Kingdom that is not a relevant person should not act or rely on this document or any of its contents.

**Notice to Prospective Investors in France**

Neither this prospectus supplement nor any other offering material relating to the Citigroup Notes described in this prospectus supplement has been submitted to the clearance procedures of the *Autorité des Marchés Financiers* or of the competent authority of another member state of the European Economic Area and notified to the *Autorité des Marchés Financiers*. The Citigroup Notes have not been offered or sold and will not be offered or sold, directly or indirectly, to the public in France. Neither this prospectus supplement nor any other offering material relating to the Citigroup Notes has been or will be:

- released, issued, distributed or caused to be released, issued or distributed to the public in France; or
- used in connection with any offer for subscription or sale of the Citigroup Notes to the public in France.

Such offers, sales and distributions will be made in France only:

- to qualified investors (*investisseurs qualifiés*) and/or to a restricted circle of investors (*cercle restreint d'investisseurs*), in each case investing for their own account, all as defined in, and in accordance with, Article L.411-2, D.411-1, D.411-2, D.734-1, D.744-1, D.754-1 and D.764-1 of the French Code *monétaire et financier*;
- to investment services providers authorized to engage in portfolio management on behalf of third parties; or
- in a transaction that, in accordance with article L.411-2-II-1°-or-2°-or 3° of the French Code *monétaire et financier* and article 211-2 of the General Regulations (*Règlement Général*) of the *Autorité des Marchés Financiers*, does not constitute a public offer (*appel public à l'épargne*).

The Citigroup Notes may be resold directly or indirectly, only in compliance with Articles L.411-1, L.411-2, L.412-1 and L.621-8 through L.621-8-3 of the French Code *monétaire et financier.*

**Notice to Prospective Investors in Hong Kong**

The Citigroup Notes may not be offered or sold in Hong Kong by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong), or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a "prospectus" within the meaning of the Companies Ordinance (Cap. 32, Laws of Hong Kong) and no advertisement, invitation or document relating to the Citigroup Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to Citigroup Notes which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) and any rules made thereunder.

**Notice to Prospective Investors in Japan**

The Citigroup Notes offered in this prospectus supplement have not been registered under the Financial Instruments and Exchange Law of Japan. The Citigroup Notes have not been offered or sold and will not be offered or sold, directly or indirectly, in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law and (ii) in compliance with any other applicable requirements of Japanese law.

**Notice to Prospective Investors in Singapore**

This prospectus supplement has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this prospectus supplement and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Citigroup Notes may not be circulated or distributed, nor may the Citigroup Notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with conditions set forth in the SFA.

Where the Citigroup Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Citigroup Notes pursuant to an offer made under Section 275 of the SFA except

- to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- where no consideration is or will be given for the transfer; or
- where the transfer is by operation of law.

## LEGAL MATTERS

The validity of the Citigroup notes will be passed upon for Citigroup by Michael S. Zuckert, General Counsel, Finance and Capital Markets of Citigroup. Mr. Zuckert beneficially owns, or has rights to acquire under Citigroup's employee benefit plans, an aggregate of less than 1% of Citigroup's common stock. Cleary Gottlieb Steen & Hamilton LLP, New York, New York will act as special tax counsel to Citigroup and legal counsel to the placement agent. Cleary Gottlieb Steen & Hamilton LLP has from time to time acted as counsel for Citigroup and its subsidiaries and may do so in the future.

**PROSPECTUS**

May Offer —

# Debt Securities
# Common Stock Warrants
# Index Warrants
# Preferred Stock
# Depositary Shares
# Stock Purchase Contracts
# Stock Purchase Units
# Common Stock

Citigroup will provide the specific terms of these securities in supplements to this prospectus. You should read this prospectus and the accompanying prospectus supplement carefully before you invest.

---

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus or any accompanying prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.

These securities are not deposits or savings accounts but are unsecured obligations of Citigroup. These securities are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality.

---

March 2, 2006

## PROSPECTUS SUMMARY

This summary provides a brief overview of the key aspects of Citigroup and all material terms of the offered securities that are known as of the date of this prospectus. For a more complete understanding of the terms of the offered securities, before making your investment decision, you should carefully read:

- this prospectus, which explains the general terms of the securities that Citigroup may offer;
- the accompanying prospectus supplement, which (1) explains the specific terms of the securities being offered and (2) updates and changes information in this prospectus; and
- the documents referred to in "Where You Can Find More Information" on page 6 for information on Citigroup, including its financial statements.

### Citigroup Inc.

Citigroup is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers with some 200 million customer accounts in over 100 countries. Citigroup's business is conducted through more than 3,500 subsidiaries and affiliates. Citigroup's activities are conducted through the Global Consumer Group, Corporate and Investment Banking, Global Wealth Management and Alternative Investments business segments. Citigroup's principal subsidiaries are Citibank, N.A., Associates First Capital Corporation, Citigroup Global Markets Inc. and Grupo Financiero Banamex, S.A. de C.V., each of which is a wholly owned, indirect subsidiary of Citigroup. Citigroup was incorporated in 1988 under the laws of the State of Delaware as a corporation with perpetual duration.

Citigroup's principal executive office is at 399 Park Avenue, New York, NY 10043, and its telephone number is (212) 559-1000.

### The Securities Citigroup May Offer

Citigroup may use this prospectus to offer:

- debt securities;
- common stock warrants;
- index warrants;
- preferred stock;
- depositary shares;
- stock purchase contracts;
- stock purchase units; and
- common stock.

A prospectus supplement will describe the specific types, amounts, prices and detailed terms of any of these offered securities.

#### Debt Securities

Debt securities are unsecured general obligations of Citigroup in the form of senior or subordinated debt. Senior debt includes Citigroup's notes, debt and guarantees and any other debt for money borrowed that is not subordinated. Subordinated debt, so designated at the time it is issued, would not be entitled to interest and principal payments if interest and principal payments on the senior debt were not made.

The senior and subordinated debt will be issued under separate indentures between Citigroup and a trustee. Below are summaries of the general features of the debt securities from these indentures. For a more detailed description of these features, see "Description of Debt Securities" below. You are also encouraged to read the indentures, which are included or incorporated by reference in Citigroup's registration statement of

which this prospectus forms a part, Citigroup's most recent annual report on Form 10-K, Citigroup's quarterly reports on Form 10-Q filed after the Form 10-K and Citigroup's current reports on Form 8-K filed after the period covered by Citigroup's most recent annual report on Form 10-K. You can receive copies of these documents by following the directions on page 6.

*General Indenture Provisions that Apply to Senior and Subordinated Debt*

- Neither indenture limits the amount of debt that Citigroup may issue or provides holders any protection should there be a highly leveraged transaction involving Citigroup, although the senior debt indenture does limit Citigroup's ability to pledge the stock of any subsidiary that meets the financial thresholds in the indenture. These thresholds are described below under "Description of Debt Securities."
- The senior debt indenture allows for different types of debt securities, including indexed securities, to be issued in series.
- The indentures allow Citigroup to merge or to consolidate with another company, or sell all or substantially all of its assets to another company. If any of these events occur, the other company generally would be required to assume Citigroup's responsibilities for the debt. Unless the transaction resulted in a default, Citigroup would be released from all liabilities and obligations under the debt securities when the other company assumed its responsibilities.
- The indentures provide that holders of 66⅔% of the principal amount of the senior debt securities and holders of a majority of the total principal amount of the subordinated debt securities outstanding in any series may vote to change Citigroup's obligations or your rights concerning those securities. However, changes to the financial terms of that security, including changes in the payment of principal or interest on that security or the currency of payment, cannot be made unless every holder affected consents to the change.
- Citigroup may satisfy its obligations under the debt securities or be released from its obligation to comply with the limitations discussed above at any time by depositing sufficient amounts of cash or U.S. government securities with the trustee to pay Citigroup's obligations under the particular securities when due.
- The indentures govern the actions of the trustee with regard to the debt securities, including when the trustee is required to give notices to holders of the securities and when lost or stolen debt securities may be replaced.

*Events of Default and Defaults*

The events of default specified in the senior debt indenture and defaults under the subordinated debt indenture include:

- failure to pay principal when due;
- failure to pay required interest for 30 days;
- failure to make a required scheduled installment payment for 30 days;
- failure to perform other covenants for 90 days after notice;
- certain events of insolvency or bankruptcy, whether voluntary or not; and
- any additional events as may be set forth in the applicable prospectus supplement.

Unless otherwise specified in connection with a particular offering of subordinated debt, the only events of default specified in the subordinated debt indenture are certain events of insolvency or bankruptcy, whether voluntary or not. There is no event of default, and accordingly there is no right of acceleration, in the case of a default in the payment of principal of, premium, if any, or interest on, subordinated debt securities, the performance of any other covenant of Citigroup in the subordinated indenture or any other default which is not also an event of default.

*Remedies*

Senior Indenture: If there were an event of default, the trustee or holders of 25% of the principal amount of senior debt securities outstanding in a series could demand that the principal be paid immediately. However, holders of a majority in principal amount of the securities in that series could rescind that acceleration of the debt securities.

Subordinated Indenture: If there were an event of default involving certain events of insolvency or bankruptcy, the trustee or holders of 25% of the principal amount of subordinated debt securities outstanding in a series could demand that the principal be paid immediately. However, holders of a majority in principal amount of the securities in that series may rescind that acceleration of the debt securities. The occurrence of a default for any reason other than these events of insolvency or bankruptcy will not give the trustee or such holders the right to demand that the principal of the subordinated debt securities be paid immediately.

**Common Stock Warrants**

Citigroup may issue common stock warrants independently or together with any securities. Citigroup will issue any common stock warrants under a separate common stock warrant agreement between Citigroup and a bank or trust company. You are encouraged to read the standard form of the common stock warrant agreement, which will be filed as an exhibit to one of Citigroup's future current reports and incorporated by reference in its registration statement of which this prospectus forms a part. You can receive copies of these documents by following the directions on page 6.

Common stock warrants are securities pursuant to which Citigroup may sell or purchase common stock. The particular terms of each issue of common stock warrants, the common stock warrant agreement relating to the common stock warrants and the common stock warrant certificates representing common stock warrants will be described in the applicable prospectus supplement.

**Index Warrants**

Citigroup may issue index warrants independently or together with debt securities. Citigroup will issue any series of index warrants under a separate index warrant agreement between Citigroup and a bank or trust company. You are encouraged to read the standard form of the index warrant agreement, which will be filed as an exhibit to one of Citigroup's future current reports and incorporated by reference in its registration statement of which this prospectus forms a part. You can receive copies of these documents by following the directions on page 6.

Index warrants are securities that, when properly exercised by the purchaser, entitle the purchaser to receive from Citigroup an amount in cash or a number of securities that will be indexed to prices, yields, or other specified measures or changes in an index or differences between two or more indices.

The prospectus supplement for a series of index warrants will describe the formula for determining the amount in cash or number of securities, if any, that Citigroup will pay you when you exercise an index warrant and will contain information about the relevant underlying assets and other specific terms of the index warrant.

Citigroup will generally issue index warrants in book-entry form, which means that they will not be evidenced by physical certificates. Also, Citigroup will generally list index warrants for trading on a national securities exchange, such as the New York Stock Exchange, the Nasdaq Stock Market's National Market or the Chicago Board Options Exchange.

The index warrant agreement for any series of index warrants will provide that holders of a majority of the total principal amount of the index warrants outstanding in any series may vote to change their rights concerning those index warrants. However, changes to fundamental terms such as the amount or manner of payment on an index warrant or changes to the exercise times cannot be made unless every holder affected consents to the change.

Any prospective purchasers of index warrants should be aware of special United States federal income tax considerations applicable to instruments such as the index warrants. The prospectus supplement relating to each series of index warrants will describe the important tax considerations.

**Preferred Stock**

Citigroup may issue preferred stock with various terms to be established by its board of directors or a committee designated by the board. Each series of preferred stock will be more fully described in the particular prospectus supplement that will accompany this prospectus, including redemption provisions, rights in the event of liquidation, dissolution or winding up of Citigroup, voting rights and conversion rights.

Generally, each series of preferred stock will rank on an equal basis with each other series of preferred stock and will rank prior to Citigroup's common stock. The prospectus supplement will also describe how and when dividends will be paid on the series of preferred stock.

**Depositary Shares**

Citigroup may issue depositary shares representing fractional shares of preferred stock. Each particular series of depositary shares will be more fully described in the prospectus supplement that will accompany this prospectus. These depositary shares will be evidenced by depositary receipts and issued under a deposit agreement between Citigroup and a bank or trust company. You are encouraged to read the standard form of the deposit agreement, which is incorporated by reference in Citigroup's registration statement of which this prospectus forms a part. You can receive copies of this document by following the directions on page 6.

**Stock Purchase Contracts and Stock Purchase Units**

Citigroup may issue stock purchase contracts, including contracts obligating holders to purchase from or sell to Citigroup, and Citigroup to sell to or purchase from the holders, a specified number of shares of common stock, shares of preferred stock or depositary shares at a future date or dates. The stock purchase contracts may be issued separately or as part of stock purchase units, consisting of a stock purchase contract and any combination of debt securities, capital securities, junior subordinated debt securities or debt obligations of third parties, including U.S. Treasury securities. The applicable prospectus supplement will describe the terms of the stock purchase contracts and stock purchase units, including, if applicable, collateral or depositary arrangements.

**Common Stock**

Citigroup may issue common stock, par value $.01 per share. Holders of common stock are entitled to receive dividends when declared by Citigroup's board of directors. Each holder of common stock is entitled to one vote per share. The holders of common stock have no preemptive rights or cumulative voting rights.

## Use of Proceeds

Citigroup will use the net proceeds it receives from any offering of these securities for general corporate purposes, which may include funding its operating units and subsidiaries, financing possible acquisitions or business expansion and refinancing or extending the maturity of existing debt obligations. Citigroup may use a portion of the proceeds from the sale of index warrants and indexed notes to hedge its exposure to payments that it may have to make on such index warrants and indexed notes as described below under "Use of Proceeds and Hedging."

## Plan of Distribution

Citigroup may sell the offered securities in any of the following ways:

- to or through underwriters or dealers;
- by itself directly;
- through agents; or
- through a combination of any of these methods of sale.

The prospectus supplement will explain the ways Citigroup sells specific securities, including the names of any underwriters and details of the pricing of the securities, as well as the commissions, concessions or discounts Citigroup is granting the underwriters, dealers or agents.

If Citigroup uses underwriters in any sale, the underwriters will buy the securities for their own account and may resell the securities from time to time in one or more transactions, at a fixed public offering price or at varying prices determined at the time of sale. In connection with an offering, underwriters and selling group members and their affiliates may engage in transactions to stabilize, maintain or otherwise affect the market price of the securities, in accordance with applicable law.

Citigroup expects that the underwriters for any offering will include one or more of its broker-dealer subsidiaries, including Citigroup Global Markets Inc. These broker-dealer subsidiaries also expect to offer and sell previously issued offered securities as part of their business, and may act as a principal or agent in such transactions. Citigroup or any of its subsidiaries may use this prospectus and the related prospectus supplements and pricing supplements in connection with these activities.

## Ratio of Income to Fixed Charges and Ratio of Income to Combined Fixed Charges Including Preferred Stock Dividends

The following table shows (1) the consolidated ratio of income to fixed charges and (2) the consolidated ratio of income to combined fixed charges including preferred stock dividends of Citigroup for each of the five most recent fiscal years.

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Ratio of income to fixed charges (excluding interest on deposits) | 2.25 | 2.65 | 3.42 | 2.52 | 1.93 |
| Ratio of income to fixed charges (including interest on deposits) | 1.79 | 2.01 | 2.43 | 1.90 | 1.59 |
| Ratio of income to combined fixed charges including preferred stock dividends (excluding interest on deposits) | 2.24 | 2.63 | 3.39 | 2.50 | 1.92 |
| Ratio of income to combined fixed charges including preferred stock dividends (including interest on deposits) | 1.79 | 2.00 | 2.41 | 1.89 | 1.58 |

## Where You Can Find More Information

As required by the Securities Act of 1933, Citigroup filed a registration statement relating to the securities offered by this prospectus with the Securities and Exchange Commission. This prospectus is a part of that registration statement, which includes additional information.

Citigroup files annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document Citigroup files at the SEC's public reference room in Washington, D.C. You can also request copies of the documents, upon payment of a duplicating fee, by writing the Public Reference Section of the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. These SEC filings are also available to the public from the SEC's web site at http://www.sec.gov.

The SEC allows Citigroup to "incorporate by reference" the information it files with the SEC, which means that it can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. Information that Citigroup files later with the SEC will automatically update information in this prospectus. In all cases, you should rely on the later information over different information included in this prospectus or the prospectus supplement. Citigroup incorporates by reference the documents listed below and any future filings made with the SEC under Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934:

(a) Annual Report on Form 10-K for the year ended December 31, 2005;

(b) Current Reports on Form 8-K filed on September 20, 2005, October 20, 2005, January 13, 2006, January 27, 2006, January 31, 2006, February 14, 2006, February 27, 2006 and February 28, 2006;

(c) Definitive Proxy Statement on Schedule 14A filed on March 15, 2005; and

(d) Registration Statement on Form 8-B, dated May 10, 1988, describing our common stock, including any amendments or reports filed for the purpose of updating such description.

All documents Citigroup files pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this prospectus and before the later of (1) the completion of the offering of the securities described in this prospectus and (2) the date the broker-dealer subsidiaries of Citigroup stop offering securities pursuant to this prospectus shall be incorporated by reference in this prospectus from the date of filing of such documents.

You may request a copy of these filings, at no cost, by writing or telephoning Citigroup at the following address:

Citigroup Document Services
140 58th Street, Suite 7i
Brooklyn, NY 11220
(877) 936-2737 (toll free)
(718) 765-6514 (outside the U.S.)

You should rely only on the information provided in this prospectus, the prospectus supplement and any applicable pricing supplement, as well as the information incorporated by reference. Citigroup is not making an offer of these securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus, the prospectus supplement, any applicable pricing supplement or any documents incorporated by reference is accurate as of any date other than the date of the applicable document.

## FORWARD-LOOKING STATEMENTS

This prospectus, the accompanying prospectus supplement and the information incorporated by reference in this prospectus include forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are based on Citigroup's management's beliefs and assumptions and on information currently available to Citigroup's management. Forward-looking statements include information concerning Citigroup's possible or assumed future results of operations and statements preceded by, followed by or that include the words "believes," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions.

Forward-looking statements involve risks, uncertainties and assumptions. Actual results may differ materially from those expressed in these forward-looking statements. Factors that could cause actual results to differ from these forward-looking statements include, but are not limited to, those discussed elsewhere in this prospectus, the accompanying prospectus supplement and the documents incorporated by reference in this prospectus. You should not put undue reliance on any forward-looking statements. Citigroup does not have any intention or obligation to update forward-looking statements after it distributes this prospectus.

## CITIGROUP INC.

Citigroup is a diversified global financial services holding company whose businesses provide a broad range of financial services to consumer and corporate customers with some 200 million customer accounts in over 100 countries. Citigroup's business is conducted through more than 3,500 subsidiaries and affiliates. Citigroup's activities are conducted through the Global Consumer Group, Corporate and Investment Banking, Global Wealth Management and Alternative Investments business segments. Citigroup's principal subsidiaries are Citibank, N.A., Associates First Capital Corporation, Citigroup Global Markets Inc. and Grupo Financiero Banamex, S.A. de C.V., each of which is a wholly owned, indirect subsidiary of Citigroup. Citigroup was incorporated in 1988 under the laws of the State of Delaware as a corporation with perpetual duration.

Citigroup is a holding company and services its obligations primarily with dividends and advances that it receives from subsidiaries. Citigroup's subsidiaries that operate in the banking, insurance and securities business can only pay dividends if they are in compliance with the applicable regulatory requirements imposed on them by federal and state bank regulatory authorities, state insurance departments and securities regulators. Citigroup's subsidiaries may be party to credit agreements that also may restrict their ability to pay dividends. Citigroup currently believes that none of these regulatory or contractual restrictions on the ability of its subsidiaries to pay dividends will affect Citigroup's ability to service its own debt. Citigroup must also maintain the required capital levels of a bank holding company before it may pay dividends on its stock. Each of Citigroup's major operating subsidiaries finances its operations on a stand-alone basis consistent with its capitalization and ratings.

Under the regulations of the Federal Reserve, a bank holding company is expected to act as a source of financial strength for its subsidiary banks. As a result of this regulatory policy, the Federal Reserve might require Citigroup to commit resources to its subsidiary banks when doing so is not otherwise in the interests of Citigroup or its shareholders or creditors.

The principal office of Citigroup is located at 399 Park Avenue, New York, NY 10043, and its telephone number is (212) 559-1000.

## USE OF PROCEEDS AND HEDGING

*General.* Citigroup will use the proceeds it receives from the sale of the offered securities for general corporate purposes, which may include:

- funding the business of its operating units;
- funding investments in, or extensions of credit or capital contributions to, its subsidiaries;
- financing possible acquisitions or business expansion; and
- lengthening the average maturity of liabilities, which means that it could reduce its short-term liabilities or refund maturing indebtedness.

Citigroup expects to incur additional indebtedness in the future to fund its businesses. Citigroup or one or more subsidiaries may enter into a swap agreement in connection with the sale of the offered securities and may earn additional income from that transaction.

*Use of Proceeds Relating to Index Warrants and Indexed Notes.* Citigroup or one or more of its subsidiaries may use all or some of the proceeds received from the sale of index warrants or indexed notes to purchase or maintain positions in the underlying assets. Citigroup or one or more of its subsidiaries may also purchase or maintain positions in options, futures contracts, forward contracts or swaps, or options on the foregoing, or other derivative or similar instruments relating to the relevant index or underlying assets. Citigroup may also use the proceeds to pay the costs and expenses of hedging any currency, interest rate or other index-related risk relating to such index warrants and indexed notes.

Citigroup expects that it or one or more of its subsidiaries will increase or decrease their initial hedging position over time using techniques which help evaluate the size of any hedge based upon a variety of factors affecting the value of the underlying instrument. These factors may include the history of price changes in that underlying instrument and the time remaining to maturity. Citigroup or one or more of its subsidiaries may take long or short positions in the index, the underlying assets, options, futures contracts, forward contracts, swaps, or options on the foregoing, or other derivative or similar instruments related to the index or the underlying assets. These other hedging activities may occur from time to time before the index warrants and indexed notes mature and will depend on market conditions and the value of the index and the underlying assets.

In addition, Citigroup or one or more of its subsidiaries may purchase or otherwise acquire a long or short position in index warrants and indexed notes from time to time and may, in their sole discretion, hold, resell, exercise, cancel or retire such offered securities. Citigroup or one or more of its subsidiaries may also take hedging positions in other types of appropriate financial instruments that may become available in the future.

If Citigroup or one or more of its subsidiaries has a long hedge position in, or options, futures contracts or swaps or options on the foregoing, or other derivative or similar instruments related to, the index or underlying assets, Citigroup or one or more of its subsidiaries may liquidate all or a portion of its holdings at or about the time of the maturity or earlier redemption or repurchase of, or the payment of any indexed interest on, the index warrants and indexed notes. The aggregate amount and type of such positions are likely to vary over time depending on future market conditions and other factors. Since the hedging activities described in this section involve risks and may be influenced by a number of factors, it is possible that Citigroup or one or more of its subsidiaries may receive a profit from the hedging activities, even if the market value of the index warrants or indexed notes declines. Citigroup is only able to determine profits or losses from any such position when the position is closed out and any offsetting position or positions are taken into account.

Citigroup has no reason to believe that its hedging activities, as well as those of its subsidiaries, will have a material impact on the price of such options, futures contracts, forward contracts, swaps, options on the foregoing, or other derivative or similar instruments, or on the value of the index or the underlying assets. However, Citigroup cannot guarantee you that its hedging activities, as well as those of its subsidiaries, will not affect such prices or values. Citigroup will use the remainder of the proceeds from the sale of index warrants and indexed notes for the general corporate purposes described above.

## EUROPEAN MONETARY UNION

The foreign currencies in which debt securities may be denominated or payments in respect of index warrants may be due or by which amounts due on the offered securities may be calculated could be issued by countries that are member states of the European Union that have adopted or adopt the single Euro currency in accordance with the Treaty establishing the European Community (as that Treaty is amended from time to time) (the "participating member states").

The current twelve participating member states are: Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal and Spain. Other member states of the European Union may also become participating member states.

## DESCRIPTION OF DEBT SECURITIES

The debt securities offered by this prospectus will be unsecured obligations of Citigroup and will be either senior or subordinated debt. Senior debt securities will be issued under a senior debt indenture. Subordinated debt securities will be issued under a subordinated debt indenture. The senior debt indenture and the subordinated debt indenture are sometimes referred to in this prospectus individually as an "indenture" and collectively as the "indentures." Forms of the indentures have been filed with the SEC and are incorporated by reference or included in the registration statement on Form S-3 under the Securities Act of 1933 of which this prospectus forms a part.

The following briefly summarizes the material provisions of the indentures and the debt securities, other than pricing and related terms disclosed in the accompanying prospectus supplement or pricing supplement, as the case may be. You should read the more detailed provisions of the applicable indenture, including the defined terms, for provisions that may be important to you. You should also read the particular terms of an offering of debt securities, which will be described in more detail in the applicable prospectus supplement or pricing supplement, as the case may be. Copies of the indentures may be obtained from Citigroup or the applicable trustee. So that you may easily locate the more detailed provisions, the numbers in parentheses below refer to sections in the applicable indenture or, if no indenture is specified, to sections in each of the indentures. Wherever particular sections or defined terms of the applicable indenture are referred to, such sections or defined terms are incorporated into this prospectus by reference, and the statements in this prospectus are qualified by that reference.

Unless otherwise specified in connection with a particular offering of debt securities, the trustee under the senior debt indenture will be The Bank of New York, and the trustee under the subordinated debt indenture will be J.P. Morgan Trust Company, N.A. Citigroup has appointed Citibank, N.A. to act as paying agent under each indenture.

### General

The indentures provide that unsecured senior or subordinated debt securities of Citigroup may be issued in one or more series, with different terms, in each case as authorized from time to time by Citigroup. Citigroup also has the right to "reopen" a previous issue of a series of debt securities by issuing additional debt securities of such series.

United States federal income tax consequences and other special considerations applicable to any debt securities issued by Citigroup at a discount or a premium will be described in the applicable prospectus supplement or pricing supplement, as the case may be.

Because Citigroup is a holding company, the claims of creditors of Citigroup's subsidiaries will have a priority over Citigroup's equity rights and the rights of Citigroup's creditors, including the holders of debt securities, to participate in the assets of the subsidiary upon the subsidiary's liquidation.

The applicable prospectus supplement or pricing supplement relating to any offering of debt securities will describe the following terms, where applicable:

- the title of the debt securities;
- whether the debt securities will be senior or subordinated debt;
- the indenture under which the debt securities are being issued;
- the total principal amount of the debt securities;
- the percentage of the principal amount at which the debt securities will be sold and, if applicable, the method of determining the price;
- the maturity date or dates;
- the interest rate or the method of computing the interest rate;
- the date or dates from which any interest will accrue, or how such date or dates will be determined, and the interest payment date or dates and any related record dates;
- if other than in United States dollars, the currency or currency unit in which payment will be made;
- if the amount of any payment may be determined with reference to an index or formula based on a currency or currency unit other than that in which the debt securities are payable, the manner in which the amounts will be determined;
- if the amount of any payment may be determined with reference to an index or formula based on securities, commodities, intangibles, articles or goods, or any other financial, economic or other measure or instrument, including the occurrence or non-occurrence of any event or circumstance, the manner in which the amount will be determined;
- if any payments may be made at the election of Citigroup or a holder of debt securities in a currency or currency unit other than that in which the debt securities are stated to be payable, the periods within which, and the terms upon which, such election may be made;
- if other than the principal amount, the portion of the principal amount of the debt securities payable if the maturity is accelerated;
- the date of any global security if other than the original issuance of the first debt security to be issued;
- any material provisions of the applicable indenture described in this prospectus that do not apply to the debt securities; and
- any other specific terms of the debt securities *(Section 2.02)*.

The terms on which debt securities may be convertible into or exchangeable for common stock or other securities of Citigroup will be set forth in the prospectus supplement relating to such offering. Such terms will include provisions as to whether conversion or exchange is mandatory, at the option of the holder or at the option of Citigroup. The terms may include provisions pursuant to which the number of shares of common stock or other securities of Citigroup to be received by the holders of such debt securities may be adjusted.

Unless otherwise specified in connection with a particular offering of debt securities, the debt securities are not redeemable prior to maturity, except upon the occurrence of certain tax events described below under "— Redemption for Tax Purposes." The redemption price for the debt securities upon the occurrence of certain tax events will be 100% of the principal amount thereof plus accrued interest to the date of the redemption.

Unless otherwise specified in connection with a particular offering of debt securities, the debt securities are not subject to any sinking fund.

Unless otherwise specified in connection with a particular offering of debt securities, debt securities denominated in U.S. dollars will be issued only in denominations of $100,000 and whole multiples of $1,000 in

excess thereof (*Section 2.01*). The prospectus supplement relating to debt securities denominated in a foreign currency will specify the denomination of such debt securities.

The currency for payment for book-entry debt securities denominated in a foreign currency will be specified in the applicable prospectus supplement. However, when interests in such debt securities are held through The Depositary Trust Company ("DTC"), all payments in respect of such debt securities will be made in U.S. dollars, unless the holder of a beneficial interest in the DTC debt securities elects to receive payment in the foreign currency specified in the applicable prospectus supplement. See "— Book-Entry Procedures and Settlement" and "Currency Conversions and Foreign Exchange Risks Affecting Debt Securities Denominated in a Foreign Currency — Currency Conversion" below.

Citigroup may, without notice to or consent of the holders or beneficial owners of a series of debt securities, issue additional debt securities having the same ranking, interest rate, maturity and other terms as the debt securities initially issued. Any such debt securities could be considered part of the same series of debt securities under the indenture as the debt securities initially issued.

The senior debt securities will be issued only in registered form. The subordinated debt securities may be issued in registered form, bearer form, or both; however, unless otherwise specified in connection with a particular offering of subordinated debt securities, the subordinated debt securities will be issued in registered form. If bearer securities are issued, the United States federal income tax consequences and other special considerations, procedures and limitations applicable to such bearer securities will be described in the applicable prospectus supplement. As currently anticipated, debt securities of a series will trade in book-entry form, and global notes will be issued in physical (paper) form, as described below under "— Book-Entry Procedures and Settlement."

Unless otherwise specified in connection with a particular offering of debt securities, the debt securities may be presented for exchange, and debt securities other than a global security may be presented for registration of transfer, at the principal trust office of the relevant trustee in New York City. Holders will not have to pay any service charge for any registration of transfer or exchange of debt securities, but Citigroup may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with such registration of transfer. (*Section 2.05*) Debt securities in bearer form will be transferable by delivery. Provisions with respect to the exchange of debt securities in bearer form will be described in the applicable prospectus supplement.

Unless otherwise specified in connection with a particular offering of debt securities denominated in a foreign currency, a fiscal agency agreement will be entered into in relation to the debt securities between Citigroup and Citibank, N.A., London office, as registrar, fiscal agent and principal paying agent. The terms "registrar," "fiscal agent," and "principal paying agent" shall include any successors appointed from time to time in accordance with the provisions of the fiscal agency agreement, and any reference to an "agent" or "agents" shall mean any or all (as applicable) of such persons. The holders of the debt securities are bound by, and are deemed to have notice of, the provisions of the fiscal agency agreement. Unless otherwise specified in connection with a particular offering of debt securities, copies of the fiscal agency agreement are available for inspection during usual business hours at the principal office of Citibank, N.A. London office, located at Citigroup Centre, Canada Square, Canary Wharf, London, England, and at the office of Dexia Banque Internationale à Luxembourg S.A., as long as the debt securities are listed on the Luxembourg Stock Exchange.

.

**Payments of Principal and Interest**

Payments of principal and interest on debt securities issued in book-entry form will be made as described below under "— Book-Entry Procedures and Settlement." Payments of principal and interest on debt securities issued in definitive form, if any, will be made as described below under "— Definitive Notes and Paying Agents."

Unless otherwise specified in connection with a particular offering of debt securities, interest on the debt securities will be paid as follows:

| *Interest Payment Frequency* | *Interest Payment Dates* |
|---|---|
| Monthly | Fifteenth day of each calendar month, beginning in the first calendar month following the month the debt security was issued. |
| Quarterly | Fifteenth day of every third month, beginning in the third calendar month following the month the debt security was issued. |
| Semi-annually | Fifteenth day of every sixth month, beginning in the sixth calendar month following the month the debt security was issued. |
| Annually | Fifteenth day of every twelfth month, beginning in the twelfth calendar month following the month the debt security was issued. |

Unless otherwise specified in connection with a particular offering of debt securities, all payments of interest on debt securities paying a fixed rate of interest ("fixed rate notes") will be made to the persons in whose names the fixed rate notes are registered at the close of business on the first Business Day of the month in which payment is to be made, and all payments of interest on debt securities paying a floating rate of interest ("floating rate notes") will be made to the persons in whose names the floating rate notes are registered at the close of business on the Business Day preceding an interest payment date.

If an interest payment date for a fixed rate note or the maturity date of the debt securities falls on a day that is not a Business Day, the payment due on such interest payment date or on the maturity date will be postponed to the next succeeding Business Day, and no further interest will accrue in respect of such postponement. Unless otherwise specified in connection with a particular offering of debt securities, if an interest payment date for a floating rate note falls on a day that is not a Business Day, such interest payment date will be the next following Business Day unless that day falls in the next calendar month, in which case the interest payment date will be the first preceding Business Day.

Unless otherwise specified in connection with a particular offering of debt securities, in this section, "Business Day" shall mean any day which is a day on which commercial banks settle payments and are open for general business (a) in New York, in the case of U.S. dollar-denominated debt securities; (b) in New York, London and Tokyo, in the case of Yen-denominated debt securities; (c) in New York and London and which is also a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer ("TARGET") system is open, in the case of Euro-denominated debt securities. Unless otherwise specified in connection with a particular offering of debt securities, in the case of Canadian dollar-denominated debt securities, "Business Day" shall mean any Toronto business day which is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealings in foreign currency deposits and foreign exchange) in Toronto.

If a date for payment of interest or principal on the debt securities falls on a day that is not a business day in the place of payment, such payment will be made on the next succeeding business day in such place of payment as if made on the date the payment was due. No interest will accrue on any amounts payable for the period from and after the due date for payment of such principal or interest.

**Interest Rate Determination**

*Fixed Rate Notes*

Unless otherwise specified in connection with a particular offering of debt securities, each fixed rate note will bear interest from its original issue date, or from the last interest payment date to which interest has been

paid or duly provided for, at the rate per annum stated in the applicable prospectus supplement or pricing supplement until its principal amount is paid or made available for payment.

Unless otherwise specified in connection with a particular offering of debt securities, interest on each fixed rate note will be payable semi-annually in arrears on the dates set forth in the applicable prospectus supplement or pricing supplement, with each such day being an interest payment date, and at maturity. Unless otherwise specified in connection with a particular offering of debt securities, interest on U.S.-dollar-denominated fixed rate notes will be calculated on the basis of a 360-day year comprised of twelve 30-day months or, in the case of an incomplete month, the number of days elapsed. The day-count for fixed rate notes denominated in any other currency will be set forth in the applicable prospectus supplement or pricing supplement. All U.S. dollar, Canadian dollar and Euro amounts resulting from this calculation will be rounded to the nearest cent, with one-half cent being rounded upward. All Yen amounts resulting from this calculation will be rounded to the nearest Yen, with five-tenths or more of ¥1 to be rounded upwards to the nearest ¥1 per debt security. The rounding convention for any other currency will be set forth in the applicable prospectus supplement.

*Floating Rate Notes*

Each floating rate note will bear interest at the interest rate specified in the prospectus supplement or pricing supplement relating to a particular series of debt securities. Unless otherwise specified in connection with a particular offering of debt securities, interest on each floating rate note will be payable quarterly in arrears on the dates set forth in the applicable prospectus supplement or pricing supplement, with each such day being an interest payment date, and at maturity. Unless otherwise specified in connection with a particular offering of debt securities, interest on floating rate notes will be calculated on the basis of the actual number of days in an interest period and a 360-day year. An interest period is the period commencing on an interest payment date and ending on the day preceding the next following interest payment date. The first interest period will commence on the day the floating rate notes are issued and will end on the day preceding the next following interest payment date.

The interest rate for each offering of floating rate notes for a particular interest period will be a per annum rate equal to the base rate specified in the applicable prospectus supplement or pricing supplement, as determined on the relevant interest determination date (defined below for each base rate), plus or minus any spread or multiplied by any spread multiplier. A basis point, or bp, equals one-hundredth of a percentage point. The spread is the number of basis points specified in the applicable prospectus supplement or pricing supplement and the spread multiplier is the percentage specified in the applicable prospectus supplement or pricing supplement.

Each floating rate note will bear interest for each interest period at a rate determined by Citibank, N.A., acting as calculation agent. Promptly upon determination, the calculation agent will inform the trustee and Citigroup of the interest rate for the next interest period. Absent manifest error, the determination of the interest rate by the calculation agent shall be binding and conclusive on the holders of such floating rate notes, the trustee and Citigroup. As long as the floating rate notes are listed on the Luxembourg Stock Exchange, the Luxembourg Stock Exchange shall be notified of the interest rate, the amount of the interest payment and the interest payment date for a particular interest period not later than the first day of such interest period. Upon request from any noteholder, the calculation agent will provide the interest rate in effect on the notes for the current interest period and, if it has been determined, the interest rate to be in effect for the next interest period.

The applicable prospectus supplement or pricing supplement will designate one of the following base rates as applicable to an offering of floating rate notes:

- LIBOR;
- the Treasury Rate;
- the Prime Rate;
- EURIBOR;

- CDOR; or
- such other base rate as is set forth in the applicable prospectus supplement or pricing supplement and in the note.

The following terms are used in describing the various base rates:

The "index maturity" is the period of maturity of the instrument or obligation from which the base rate is calculated.

"H.15(519)" means the publication entitled "Statistical Release H.15(519), Selected Interest Rates," or any successor publication, published by the Board of Governors of the Federal Reserve System.

"H.15 Daily Update" means the daily update of the Board of Governors of the Federal Reserve System at http://www.federalreserve.gov/releases/H15/update/ or any successor site or publication.

Unless otherwise specified in connection with a particular offering of debt securities, in this section, business day means:

- for any floating rate note, any day that is not a Saturday or Sunday and that is not a day on which banking institutions generally are authorized or obligated by law or executive order to close in New York City, London, or the place in which the floating rate note or its coupon is to be presented for payment;
- for LIBOR floating rate notes only, a London business day, which shall be any day on which dealings in deposits in the specified currency are transacted in the London interbank market;
- for floating rate notes having a specified currency other than U.S. dollars only, other than Euro-denominated floating rate notes, any day that, in the principal financial center (as defined below) of the country of the specified currency, is not a day on which banking institutions generally are authorized or obligated by law to close; and
- for EURIBOR floating rate notes and Euro-denominated floating rate notes, a TARGET business day, which will be any day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer System is open.

As used above, a "principal financial center" means the capital city of the country issuing the specified currency. However, for Australian dollars, Canadian dollars and Swiss francs, the principal financial center will be Sydney, Toronto and Zurich, respectively.

Unless otherwise specified in connection with a particular offering of debt securities, each of the following base rates will be determined by the calculation agent as described below. Unless otherwise specified in connection with a particular offering of debt securities, all percentages resulting from any calculation of the rate of interest on a floating rate note will be rounded, if necessary, to the nearest 1/100,000 of 1% (.0000001), with five one-millionths of a percentage point rounded upward. All currency amounts used in, or resulting from, the calculation on floating rate notes will be rounded to the nearest one-hundredth of a unit. For purposes of rounding, .005 of a unit shall be rounded upward.

LIBOR Notes. Each LIBOR note will bear interest for each interest period at an interest rate equal to LIBOR and any spread or spread multiplier specified in the note and the applicable prospectus supplement or pricing supplement.

The calculation agent will determine LIBOR on each interest determination date. The interest determination date is the second London business day prior to each interest period.

On an interest determination date, the calculation agent will determine LIBOR for each interest period as follows.

The calculation agent will determine the offered rates for deposits in a principal amount equal to at least $1,000,000 or the approximate equivalent in the specified currency for the period of the index maturity specified in the applicable prospectus supplement or pricing supplement commencing on the interest determination date, which appear on the "designated LIBOR page" at approximately 11:00 a.m., London time, on that date.

- If "LIBOR Moneyline Telerate" is designated, or if neither "LIBOR Reuters" nor "LIBOR Moneyline Telerate" is specified as the method for calculating LIBOR, "designated LIBOR page" means the display designated as page "3750" on the Moneyline Telerate Service, and LIBOR will be the relevant offered rate determined by the calculation agent. If page "3750" on the Moneyline Telerate Service is replaced by another page or ceases to exist, or if the Moneyline Telerate Service is replaced by a successor service or ceases to exist, then "LIBOR Moneyline Telerate" means the replacement page or service selected by the British Bankers' Association for the purpose of displaying the London interbank offered rates of major banks.
- If "LIBOR Reuters" is designated, "designated LIBOR page" means the display designated as page "LIBO" on the Reuters Monitor Money Rates Service and LIBOR will be the arithmetic means of the offered rates, calculated by the calculation agent, or the offered rate, if the designated LIBOR page by its terms provides only for a single rate. If the LIBO page on that service is replaced by another page or ceases to exist, or if the Reuters Monitor Money Rates Service is replaced by a successor service or ceases to exist, then "LIBOR Reuters" means the replacement page or service selected by the British Bankers' Association for the purpose of displaying the London interbank offered rates of major banks.

If LIBOR cannot be determined on an interest determination date as described above, then the calculation agent will determine LIBOR as follows.

- The calculation agent (after consultation with Citigroup) will select four major banks in the London interbank market.
- The calculation agent will request that the principal London offices of those four selected banks provide their offered quotations to prime banks in the London interbank market at approximately 11:00 a.m., London time, on the interest determination date. These quotations shall be for deposits in the specified currency for the period of the specified index maturity, commencing on the interest determination date. Offered quotations must be based on a principal amount equal to at least $1,000,000 or the approximate equivalent in the specified currency that is representative of a single transaction in such market at that time.

(1) If two or more quotations are provided, LIBOR for the interest period will be the arithmetic average of those quotations.

(2) If less than two quotations are provided, the calculation agent (after consultation with Citigroup) will select three major banks in New York City and follow the steps in the two bullet points below.

- The calculation agent will then determine LIBOR for the interest period as the arithmetic average of rates quoted by those three major banks in New York City to leading European banks at approximately 11:00 a.m., New York City time, on the interest determination date. The rates quoted will be for loans in the specified currency, for the period of the specified index maturity, commencing on the interest determination date. Rates quoted must be based on a principal amount of at least $1,000,000 or the approximate equivalent in the specified currency that is representative of a single transaction in such market at that time.
- If fewer than three New York City banks selected by the calculation agent are quoting rates, LIBOR for the interest period will be the same as for the immediately preceding interest period.

Treasury Rate Notes. Each Treasury Rate note will bear interest for each interest period at an interest rate equal to the Treasury Rate and any spread or spread multiplier, specified in the note and the applicable prospectus supplement or pricing supplement.

The calculation agent will determine the Treasury Rate on each interest determination date. The interest determination date for each interest period will be the day of the week in which the beginning of that interest period falls on which treasury securities are normally auctioned. Treasury securities are normally sold at auction on Monday of each week unless that day is a legal holiday. In that case the auction is normally held on the following Tuesday, except that the auction may be held on the preceding Friday. If, as the result of a legal holiday, an auction is held on the Friday of the week preceding an interest period, that Friday will be the

interest determination date pertaining to the interest period commencing in the next succeeding week. If an auction date falls on any day that would otherwise be an interest determination date for a Treasury Rate note, then that interest determination date will instead be the business day immediately following the auction date.

On an interest determination date, unless otherwise specified in connection with a particular offering of debt securities, the Treasury Rate for each interest period will be the rate for the auction held on the interest determination date for the interest period of treasury securities as that rate appears on Moneyline Telerate (or any successor service) on page 56 (or any other page as may replace page 56) or on page 57 (or any other page as may replace page 57) under the heading "INVESTMENT RATE." Treasury securities are direct obligations of the United States that have the index maturity specified in the applicable prospectus supplement or pricing supplement.

If the Treasury Rate cannot be determined as described above, the following procedures will be followed in the order set forth below.

(1) If the Treasury rate is not published prior to 3:00 P.M., New York City time on the earlier of 1) the tenth calendar day after the interest determination date or, if that day is not a business day, the next succeeding business day, or 2) the business day immediately preceding the applicable interest payment date or maturity date, as the case may be (the "calculation date"), then the Treasury Rate will be the Bond Equivalent Yield (as defined below) of the rate for the applicable treasury securities as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the heading "U.S. Government Securities/Treasury Bills/Auction High" on the interest determination date.

(2) If the rate referred to in clause (1) is not so published by 3:00 P.M., New York City time, on the calculation date, the Treasury Rate will be the Bond Equivalent Yield of the auction rate of the applicable treasury securities as announced by the United States Department of the Treasury on the interest determination date.

(3) If the rate referred to in clause (2) above is not so announced by the United States Department of the Treasury, or if the auction is not held, then the Treasury Rate will be the Bond Equivalent Yield of the rate on the interest determination date of the applicable treasury securities published in H.15(519) under the heading "U.S. Government Securities/Treasury Bills/Secondary Market."

(4) If the rate referred to in clause (3) is not so published by 3:00 p.m., New York City time, on the calculation date, then the Treasury Rate will be the rate on the calculation date of the applicable treasury securities as published in H.15 Daily Update, or another recognized electronic source used for the purpose of displaying the applicable rate, under the heading "U.S. Government Securities/Treasury Bills/Secondary Market" on the interest determination date.

(5) If the rate referred to in clause (4) is not so published by 3:00 p.m., New York City time, on the calculation date, then the Treasury Rate will be the rate calculated by the calculation agent as the Bond Equivalent Yield of the arithmetic mean of the secondary market bid rates, as of approximately 3:30 p.m., New York City time, on the interest determination date, of three primary United States government securities dealers selected by the calculation agent (after consultation with Citigroup), for the issue of treasury securities with a remaining maturity closest to the index maturity specified in the applicable prospectus supplement or pricing supplement.

(6) If the dealers selected by the calculation agent are not quoting bid rates as mentioned in (5) above, then the Treasury Rate for such interest period will be the same as the Treasury Rate for the immediately preceding interest period. If there was no preceding interest period, the Treasury Rate will be the initial interest rate.

Bond Equivalent Yield will be calculated as follows:

$$\text{Bond Equivalent Yield} = \frac{D \times N}{360 - (D \times M)} \times 100$$

where "D" refers to the applicable per annum rate for treasury securities quoted on a bank discount basis and expressed as a decimal, "N" refers to 365 or 366, as the case may be, and "M" refers to the actual number of days in the applicable interest period.

Prime Rate Notes. Prime Rate notes will bear interest at a rate equal to the Prime Rate and any spread or spread multiplier specified in the Prime Rate notes and the applicable prospectus supplement or pricing supplement.

The calculation agent will determine the Prime Rate for each interest period on each interest determination date. The interest determination date is the second business day prior to each interest period. The Prime Rate will be the rate made available and subsequently published on that date in H.15(519) under the heading "Bank Prime Loan."

The following procedures will be followed if the Prime Rate cannot be determined as described above.

- If the rate is not published prior to 3:00 P.M., New York City time, on the calculation date, then the Prime Rate will be the rate on the interest determination date that is published in the H.15 Daily Update other recognized electronic source used for the purpose of displaying that rate, under the heading "Bank Prime Loan."
- If the rate referred to above is not published prior to 3:00 P.M., New York City time, on the calculation date, then the Prime Rate will be the arithmetic mean of the rates of interest that appear on the Reuters Screen USPRIME1 page as such bank's prime rate or base lending rate as of 11:00 a.m., New York City time, on the interest determination date.
- If fewer than four such rates appear on the Reuters Screen USPRIME1 page, then the calculation agent will select three major banks in New York City (after consultation with Citigroup). The Prime Rate will be the arithmetic average of the prime rates quoted by those three banks on the basis of the actual number of days in the year divided by a 360-day year as of the close of business on the interest determination date.
- If the banks that the calculation agent selects do not provide quotations as described above, then the Prime Rate will remain the same as the Prime Rate for the immediately preceding interest period, or if there was no interest period, the rate of interest payable will be the initial interest rate.

"Reuters Screen USPRIME1 page" means the display designated as page "USPRIME1" on the Reuters Monitor Money Rates Service, or any successor service or page, for the purpose of displaying prime rates or base lending rates of major United States banks.

EURIBOR Notes. Each EURIBOR note will bear interest for each interest period at an interest rate equal to EURIBOR and any spread or spread multiplier specified in the note and the applicable prospectus supplement or pricing supplement.

The calculation agent will determine EURIBOR on each interest determination date. The interest determination date is the second TARGET business day prior to each interest period.

On an interest determination date, the calculation agent will determine EURIBOR for each interest period as follows.

The calculation agent will determine the offered rates for deposits in euros for the period of the index maturity specified in the applicable prospectus supplement or pricing supplement, in amounts of at least €1,000,000, commencing on the interest determination date, which appears on page 248 (or any other page as may replace such page) on the Telerate Service (or any successor service) as of 11:00 a.m., Brussels time, on that date.

If EURIBOR cannot be determined on an interest determination date as described above, then the calculation agent will determine EURIBOR as follows.

- The calculation agent (after consultation with Citigroup) will select four major banks in the Euro-zone interbank market.

- The calculation agent will request that the principal Euro-zone offices of those four selected banks provide their offered quotations to prime banks in the Euro-zone interbank market at approximately 11:00 a.m., Brussels time, on the interest determination date. These quotations shall be for deposits in Euros for the period of the specified index maturity, commencing on the interest determination date. Offered quotations must be based on a principal amount equal to at least €1,000,000 that is representative of a single transaction in such market at that time.

(1) If two or more quotations are provided, EURIBOR will be the arithmetic average of those quotations.

(2) If less than two quotations are provided, the calculation agent (after consultation with Citigroup) will select three major banks in the Euro-zone and follow the steps in the two bullet points below.

- The calculation agent will then determine EURIBOR for the interest period as the arithmetic average of rates quoted by those three major banks in the Euro-zone to leading European banks at approximately 11:00 a.m., Brussels time, on the interest determination date. The rates quoted will be for loans in Euros, for the period of the specified index maturity, commencing on the interest determination date. Rates quoted must be based on a principal amount of at least €1,000,000 that is representative of a single transaction in such market at that time.

- If the banks so selected by the calculation agent are not quoting rates as described above, EURIBOR for the interest period will be the same as for the immediately preceding interest period.

"Euro-zone" means the region comprised of member states of the European Union that adopted the Euro as their single currency.

CDOR Rate Notes.

Each CDOR note will bear interest for each interest period at an interest rate equal to the Canadian dollar three-month Banker's Acceptance Rate ("CDOR") and any spread or spread multiplier specified in the note and the applicable prospectus supplement or pricing supplement.

The calculation agent will determine CDOR on each interest determination date. The interest determination date is the first day of such interest period. CDOR will be the offered rate for Canadian dollar bankers' acceptances having a maturity of three months, as such rate appears on the Reuters Screen CDOR page, or such other replacing service or such other service that may be nominated by the person sponsoring the information appearing there for the purpose of displaying offered rates for Canadian dollar bankers' acceptances having a maturity of three months, at approximately 10:00 a.m., Toronto time, on such interest determination date.

The following procedures will be followed if CDOR cannot be determined as described above.

- If the rate is not published prior to 10:00 a.m., Toronto time, on the interest determination date, then CDOR will be the average of the bid rates of interest for Canadian dollar bankers' acceptances with maturities of three months for same day settlement as quoted by such of the Schedule I banks (as defined in the Bank Act (Canada)) as may quote such a rate as of 10:00 a.m., Toronto time, on such interest determination date.

- If no offered rate appears on Reuters Screen CDOR page on an interest determination date at approximately 10:00 a.m., Toronto time, then CDOR will be the average of the bid rates of interest for Canadian dollar bankers' acceptances with maturities of three months for same day settlement as quoted by such of the Schedule I banks (as defined in the Bank Act (Canada)) as may quote such a rate as of 10:00 a.m., Toronto time, on such interest determination date. If at least two quotations are provided, CDOR will be the arithmetic average of the quotations provided.

- If the Schedule I banks so selected by the calculation agent are not quoting as mentioned above, CDOR for the next interest period will be the rate in effect for the preceding interest period.

*Floating/Fixed Rate Notes* The applicable prospectus supplement may provide that a debt security will be a floating rate note for a specified portion of its term and a fixed rate note for the remainder of its term. In such an event, the interest rate on the debt security will be determined as if it were a floating rate note and a fixed rate note for each respective period, all as specified herein and in the applicable prospectus supplement or pricing supplement.

**Dual Currency Debt Securities**

Citigroup may from time to time offer dual currency debt securities on which Citigroup has the option of making all payments of principal and interest on such debt securities which are issued on the same day and have the same terms, the payments on which would otherwise be made in the specified currency of those debt securities, in the optional payment currency specified in the applicable prospectus supplement or pricing supplement. This option will be exercisable in whole but not in part on an option election date, which will be any of the dates specified in the applicable prospectus supplement. Information as to the relative value of the specified currency compared to the optional payment currency will be set forth in the applicable prospectus supplement or pricing supplement.

The prospectus supplement or pricing supplement for each issuance of dual currency debt securities will specify, among other things, the specified currency; the optional payment currency; and the designated exchange rate. The designated exchange rate will be a fixed exchange rate used for converting amounts denominated in the specified currency into amounts denominated in the optional payment currency. The prospectus supplement or pricing supplement will also specify the option election dates and interest payment dates for the related issuance of dual currency debt securities. Each option election date will be a particular number of days before an interest payment date or maturity, as set forth in the applicable prospectus supplement. Each option election date will be the date on which Citigroup may select whether to make all scheduled payments due thereafter in the optional payment currency rather than in the specified currency.

If Citigroup makes such an election, the amount payable in the optional payment currency will be determined using the designated exchange rate specified in the applicable prospectus supplement or pricing supplement. Unless otherwise specified in connection with a particular offering of debt securities, if such an election is made, notice of the election will be provided in accordance with the terms of the dual currency debt securities within two business days of the option election date. The notice will state (1) the first date, whether an interest payment date and/or maturity, on which scheduled payments in the optional payment currency will be made and (2) the designated exchange rate. Unless otherwise specified in the applicable prospectus supplement or pricing supplement, any such notice by Citigroup, once given, may not be withdrawn. The equivalent value in the specified currency of payments made after such an election may be less, at the then current exchange rate, than if Citigroup had made the payment in the specified currency.

For United States federal income tax purposes, holders of dual currency debt securities may need to comply with rules which differ from the general rules applicable to holders of other types of debt securities offered by this prospectus. The United States federal income tax consequences of the purchase, ownership and disposition of dual currency debt securities will be set forth in the applicable prospectus supplement or pricing supplement.

**Extension of Maturity**

If so stated in the prospectus supplement or pricing supplement relating to a particular offering of debt securities, Citigroup may extend the stated maturity of those debt securities for an extension period. Unless otherwise specified in connection with a particular offering of debt securities, such an extension period will be one or more periods of one to five whole years, up to but not beyond the final maturity date set forth in the prospectus supplement or pricing supplement.

Unless otherwise specified in connection with a particular offering of debt securities, Citigroup may exercise its option for a particular offering of debt securities by notifying the trustee for that series at least 45 but not more than 60 days prior to the original stated maturity of the debt security. Not later than 40 days prior to the original stated maturity of the debt security, the trustee for the debt securities will provide notice

of the extension to the holder, in accordance with "– Book-Entry Procedures and Settlement – Notices" below. The extension notice will set forth among other items: the election of Citigroup to extend the stated maturity of the debt security; the new stated maturity; in the case of a fixed rate note, the interest rate applicable to the extension period; in the case of a floating rate note, the spread, spread multiplier or method of calculation applicable to the extension period; and any provisions for redemption during the extension period, including the date or dates on which, or the period or periods during which, and the price or prices at which, a redemption may occur during the extension period.

Unless otherwise specified in connection with a particular offering of debt securities, upon the provision by such trustee of an extension notice in accordance with "Book-Entry Procedures and Settlement – Notices" below, the stated maturity of the debt security will be extended automatically, and, except as modified by the extension notice and as described in the next paragraph, the debt security will have the same terms as prior to the extension notice.

Despite the foregoing and unless otherwise specified in connection with a particular offering of debt securities, not later than 20 days prior to the original stated maturity of the debt security, Citigroup may, at its option, revoke the interest rate, or the spread or spread multiplier, as the case may be, provided for in the extension notice for the debt security and establish for the extension period a higher interest rate, in the case of a fixed rate note, or a higher spread or spread multiplier, in the case of a floating rate note. Citigroup may so act by causing the trustee for the debt security to provide notice of the higher interest rate or higher spread or spread multiplier, as the case may be, in accordance with "– Book-Entry Procedures and Settlement – Notices" below, to the holder of the debt security. Unless otherwise specified in connection with a particular offering of debt securities, the notice will be irrevocable. Unless otherwise specified in connection with a particular offering of debt securities, all debt securities for which the stated maturity is extended will bear the higher interest rate, in the case of fixed rate notes, or higher spread or spread multiplier, in the case of floating rate notes, for the extension period, whether or not tendered for repayment.

If so stated in the prospectus supplement or pricing supplement relating to a particular offering of debt securities, the holder of a debt security of which Citigroup elects to extend maturity may have the option of early redemption, repayment or repurchase.

**Listing**

Unless otherwise specified in connection with a particular offering of debt securities, application will be made to list and trade the debt securities on the regulated market of the Luxembourg Stock Exchange.

The European Commission has adopted a Directive of the European Parliament and of the Council (2004/109/EC), the "Transparency Directive") on the harmonization of transparency requirements relating to financial information of issuers whose securities are admitted to trading on a regulated market in the European Union, such as the Luxembourg Stock Exchange. If the Transparency Directive is implemented in Luxembourg in a manner that would require Citigroup to publish its financial statements according to accounting principles or standards that are materially different from U.S. generally accepted accounting principles or that would otherwise impose requirements on Citigroup that it in good faith determines are unduly burdensome, Citigroup may seek to de-list the debt securities. Citigroup will use its reasonable best efforts to obtain an alternative admission to listing, trading and/or quotation for the debt securities by another listing authority, exchange and/or system within or outside the European Union, as it may decide. If such an alternative admission is not available to Citigroup or is, in Citigroup's opinion, unduly burdensome, an alternative admission may not be obtained. Notice of any de-listing and/or alternative admission will be given as described under "— Book-Entry Procedures and Settlement — Notices" below.

**Payment of Additional Amounts**

*Obligation to Pay Additional Amounts*

Unless otherwise specified in connection with a particular offering of debt securities, Citigroup will pay additional amounts to the beneficial owner of any debt security that is a non-United States person in order to

ensure that every net payment on such debt security will not be less, due to payment of U.S. withholding tax, than the amount then due and payable. For this purpose, a "net payment" on a debt security means a payment by Citigroup or a paying agent, including payment of principal and interest, after deduction for any present or future tax, assessment or other governmental charge of the United States. These additional amounts will constitute additional interest on the debt security.

*Exceptions*

Unless otherwise specified in connection with a particular offering of debt securities, Citigroup will not be required to pay additional amounts, however, in any of the circumstances described in items (1) through (13) below.

(1) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner:

- having a relationship with the United States as a citizen, resident or otherwise;
- having had such a relationship in the past or
- being considered as having had such a relationship.

(2) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner:

- being treated as present in or engaged in a trade or business in the United States;
- being treated as having been present in or engaged in a trade or business in the United States in the past; or
- having or having had a permanent establishment in the United States.

(3) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld in whole or in part by reason of the beneficial owner being or having been any of the following (as these terms are defined in the Internal Revenue Code of 1986, as amended):

- personal holding company;
- foreign personal holding company;
- foreign private foundation or other foreign tax-exempt organization;
- passive foreign investment company;
- controlled foreign corporation; or
- corporation which has accumulated earnings to avoid United States federal income tax.

(4) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the beneficial owner owning or having owned, actually or constructively, 10 percent or more of the total combined voting power of all classes of stock of Citigroup entitled to vote or by reason of the beneficial owner being a bank that has invested in a debt security as an extension of credit in the ordinary course of its trade or business.

For purposes of items (1) through (4) above, "beneficial owner" means a fiduciary, settlor, beneficiary, member or shareholder of the holder if the holder is an estate, trust, partnership, limited liability company, corporation or other entity, or a person holding a power over an estate or trust administered by a fiduciary holder.

(5) Additional amounts will not be payable to any beneficial owner of a debt security that is a:

- fiduciary;
- partnership;
- limited liability company; or
- other fiscally transparent entity

or that is not the sole beneficial owner of the debt security, or any portion of the debt security. However, this exception to the obligation to pay additional amounts will only apply to the extent that a beneficiary or settlor in relation to the fiduciary, or a beneficial owner or member of the partnership, limited liability company or other fiscally transparent entity, would not have been entitled to the payment of an additional amount had the beneficiary, settlor, beneficial owner or member received directly its beneficial or distributive share of the payment.

(6) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld solely by reason of the failure of the beneficial owner or any other person to comply with applicable certification, identification, documentation or other information reporting requirements. This exception to the obligation to pay additional amounts will only apply if compliance with such reporting requirements is required by statute or regulation of the United States or by an applicable income tax treaty to which the United States is a party as a precondition to exemption from such tax, assessment or other governmental charge.

(7) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is collected or imposed by any method other than by withholding from a payment on a debt security by Citigroup or a paying agent.

(8) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld by reason of a change in law, regulation, or administrative or judicial interpretation that becomes effective more than 15 days after the payment becomes due or is duly provided for, whichever occurs later.

(9) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is imposed or withheld by reason of the presentation by the beneficial owner of a debt security for payment more than 30 days after the date on which such payment becomes due or is duly provided for, whichever occurs later.

(10) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any:

- estate tax;
- inheritance tax;
- gift tax;
- sales tax;
- excise tax;
- transfer tax;
- wealth tax;
- personal property tax or
- any similar tax, assessment, withholding, deduction or other governmental charge.

(11) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment, or other governmental charge required to be withheld by any paying agent from a

payment of principal or interest on a note if such payment can be made without such withholding by any other paying agent.

(12) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is required to be made pursuant to any European Union directive on the taxation of savings income or any law implementing or complying with, or introduced to conform to, any such directive. See "— EU Directive on the Taxation of Savings Income" below.

(13) Additional amounts will not be payable if a payment on a debt security is reduced as a result of any combination of items (1) through (12) above.

Except as specifically provided in this section ("Payment of Additional Amounts") and under "— Redemption for Tax Purposes" below, Citigroup will not be required to make any payment of any tax, assessment or other governmental charge imposed by any government or a political subdivision or taxing authority of such government.

*Relevant Definitions*

As used in this prospectus, "United States person" means:

- any individual who is a citizen or resident of the United States;
- any corporation, partnership or other entity treated as a corporation or a partnership created or organized in or under the laws of the United States or any political subdivision thereof;
- any estate if the income of such estate falls within the federal income tax jurisdiction of the United States regardless of the source of such income and
- any trust if a United States court is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all of the substantial decisions of the trust.

Additionally, "non-United States person" means a person who is not a United States person, and "United States" means the United States of America, including the states of the United States of America and the District of Columbia, but excluding its territories and possessions.

**Redemption for Tax Purposes**

*Redemption Procedure*

Unless otherwise specified in connection with a particular offering of debt securities, Citigroup may, at its option, redeem a series of debt securities as a whole, but not in part, on not less than 30 nor more than 60 days' prior notice, only in the circumstances described in items (1) or (2) below under "— Redemption Circumstances." To redeem, Citigroup must pay a redemption price equal to 100% of the principal amount of the debt securities, together with accrued interest to the redemption date.

*Redemption Circumstances*

Unless otherwise specified in connection with a particular offering of debt securities, there are two sets of circumstances in which Citigroup may redeem the debt securities in the manner described above under "— Redemption Procedure:"

(1) Citigroup may redeem a series of debt securities if:

- Citigroup becomes or will become obligated to pay additional amounts as described under "— Payment of Additional Amounts" above;
- the obligation to pay additional amounts arises as a result of any change in the laws, regulations or rulings of the United States, or an official position regarding the application or interpretation of such laws, regulations or rulings, which change is announced or becomes effective on or after the

date of the applicable prospectus supplement relating to the original issuance of notes which form a series, or the pricing supplement, as the case may be; and

- Citigroup determines, in its business judgment, that the obligation to pay such additional amounts cannot be avoided by the use of reasonable measures available to it, other than substituting the obligor under the notes or taking any action that would entail a material cost to Citigroup.

(2) Citigroup may also redeem a series of debt securities if:

- any act is taken by a taxing authority of the United States on or after the date of the applicable prospectus supplement relating to the original issuance of notes which form a series, or the pricing supplement, as the case may be, whether or not such act is taken in relation to Citigroup or any subsidiary, that results in a substantial probability that Citigroup will or may be required to pay additional amounts as described under "— Payment of Additional Amounts" above;
- Citigroup determines, in its business judgment, that the obligation to pay such additional amounts cannot be avoided by the use of reasonable measures available to it, other than substituting the obligor under the notes or taking any action that would entail a material cost to Citigroup and
- Citigroup receives an opinion of independent counsel to the effect that an act taken by a taxing authority of the United States results in a substantial probability that Citigroup will or may be required to pay the additional amounts described under "— Payment of Additional Amounts" above, and delivers to the trustee a certificate, signed by a duly authorized officer, stating that based on such opinion Citigroup is entitled to redeem a series of debt securities pursuant to their terms.

**Book-Entry Procedures and Settlement**

Unless otherwise specified in connection with a particular offering of debt securities, we will issue debt securities under a book-entry system in the form of one or more global securities. We will register the global securities in the name of a depositary or its nominee and deposit the global securities with that depositary. Unless otherwise specified in connection with a particular offering of debt securities, the Depository Trust Company, New York, New York, or DTC, will be the depositary if we use a depositary.

Following the issuance of a global security in registered form, the depositary will credit the accounts of its participants with the debt securities upon our instructions. Only persons who hold directly or indirectly through financial institutions that are participants in the depositary can hold beneficial interests in the global securities. Because the laws of some jurisdictions require certain types of purchasers to take physical delivery of such securities in definitive form, you may encounter difficulties in your ability to own, transfer or pledge beneficial interests in a global security.

So long as the depositary or its nominee is the registered owner of a global security, we and the relevant trustee will treat the depositary as the sole owner or holder of the debt securities for purposes of the applicable indenture. Therefore, except as set forth below, you will not be entitled to have debt securities registered in your name or to receive physical delivery of certificates representing the debt securities. Accordingly, you will have to rely on the procedures of the depositary and the participant in the depositary through whom you hold your beneficial interest in order to exercise any rights of a holder under the indenture. We understand that under existing practices, the depositary would act upon the instructions of a participant or authorize that participant to take any action that a holder is entitled to take.

You may elect to hold interests in the global securities either in the United States through DTC or outside the United States through Clearstream Banking, société anonyme ("Clearstream") or Euroclear Bank, S.A./N.V., or its successor, as operator of the Euroclear System, ("Euroclear") if you are a participant of such system, or indirectly through organizations that are participants in such systems. Interests held through Clearstream and Euroclear will be recorded on DTC's books as being held by the U.S. depositary for each of Clearstream and Euroclear, which U.S. depositaries will in turn hold interests on behalf of their participants' customers' securities accounts.

As long as the debt securities are represented by the global securities, we will pay principal of and interest and premium, if any, on those securities to or as directed by DTC as the registered holder of the global securities. Payments to DTC will be in immediately available funds by wire transfer. DTC, Clearstream or Euroclear, as applicable, will credit the relevant accounts of their participants on the applicable date. Neither we nor the relevant trustee will be responsible for making any payments to participants or customers of participants or for maintaining any records relating to the holdings of participants and their customers, and you will have to rely on the procedures of the depositary and its participants.

If an issue of debt securities is denominated in a currency other than the U.S. dollar, we will make payments of principal and any interest in the foreign currency in which the debt securities are denominated or in U.S. dollars. DTC has elected to have all payments of principal and interest paid in U.S. dollars unless notified by any of its participants through which an interest in the debt securities is held that it elects, in accordance with, and to the extent permitted by, the applicable prospectus supplement and the relevant debt security, to receive payment of principal or interest in the foreign currency. On or prior to the third business day after the record date for payment of interest and 12 days prior to the date for payment of principal, a participant will be required to notify DTC of (a) its election to receive all, or the specified portion, of payment in the foreign currency and (b) its instructions for wire transfer of payment to a foreign currency account. See "Currency Conversions and Foreign Exchange Risks Affecting Debt Securities Denominated in a Foreign Currency — Currency Conversion" below.

We have been advised by DTC, Clearstream and Euroclear, respectively, as follows:

*DTC*

DTC has advised us that it 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 Exchange Act. DTC holds securities deposited with it by its participants and facilitates the settlement of transactions among its participants in such securities through electronic computerized book-entry changes in accounts of the participants, thereby eliminating the need for physical movement of securities certificates. DTC's participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own DTC. Access to DTC's book-entry system is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. According to DTC, the foregoing information with respect to DTC has been provided to the financial community for informational purposes only and is not intended to serve as a representation, warranty or contract modification of any kind.

*Clearstream*

Clearstream has advised us that it was incorporated as a limited liability company under Luxembourg law. Clearstream is owned by Cedel International, société anonyme, and Deutsche Börse AG. The shareholders of these two entities are banks, securities dealers and financial institutions. Clearstream holds securities for its customers and facilitates the clearance and settlement of securities transactions between Clearstream customers through electronic book-entry changes in accounts of Clearstream customers, thus eliminating the need for physical movement of certificates. Transactions may be settled by Clearstream in many currencies, including United States dollars. Clearstream provides to its customers, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities, securities lending and borrowing. Clearstream also deals with domestic securities markets in over 30 countries through established depository and custodial relationships. Clearstream interfaces with domestic markets in a number of countries. Clearstream has established an electronic bridge with Euroclear Bank S.A./N.V., the operator of Euroclear, or the Euroclear operator, to facilitate settlement of trades between Clearstream and Euroclear.

As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector. Clearstream customers are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. In the United States, Clearstream customers are limited to securities brokers and dealers and banks, and may include the underwriters for the debt securities. Other institutions that maintain a custodial relationship with a Clearstream customer may obtain indirect access to Clearstream. Clearstream is an indirect participant in DTC.

Distributions with respect to the debt securities held beneficially through Clearstream will be credited to cash accounts of Clearstream customers in accordance with its rules and procedures, to the extent received by Clearstream.

*Euroclear*

Euroclear has advised us that it was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thus eliminating the need for physical movement of certificates and risk from lack of simultaneous transfers of securities and cash. Transactions may now be settled in many currencies, including United States dollars and Japanese Yen. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with DTC described below.

Euroclear is operated by the Euroclear operator, under contract with Euroclear plc, a U.K. corporation. The Euroclear operator conducts all operations, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not Euroclear plc. Euroclear plc establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters for the debt securities. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly. Euroclear is an indirect participant in DTC.

The Euroclear operator is a Belgian bank. The Belgian Banking Commission and the National Bank of Belgium regulate and examine the Euroclear operator.

The Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, or the Euroclear Terms and Conditions, and applicable Belgian law govern securities clearance accounts and cash accounts with the Euroclear operator. Specifically, these terms and conditions govern:

- transfers of securities and cash within Euroclear;
- withdrawal of securities and cash from Euroclear; and
- receipt of payments with respect to securities in Euroclear.

All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the terms and conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding securities through Euroclear participants.

Distributions with respect to debt securities held beneficially through Euroclear will be credited to the cash accounts of Euroclear participants in accordance with the Euroclear Terms and Conditions, to the extent received by the Euroclear operator.

*Settlement*

You will be required to make your initial payment for the debt securities in immediately available funds. Secondary market trading between DTC participants will occur in the ordinary way in accordance with DTC

rules and will be settled in immediately available funds using DTC's Same-Day Funds Settlement System. Secondary market trading between Clearstream customers and/or Euroclear participants will occur in the ordinary way in accordance with the applicable rules and operating procedures of Clearstream and Euroclear and will be settled using the procedures applicable to conventional eurobonds in immediately available funds.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream customers or Euroclear participants, on the other, will be effected in DTC in accordance with DTC rules on behalf of the relevant European international clearing system by U.S. depositary; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (based on European time). The relevant European international clearing system will, if the transaction meets its settlement requirements, deliver instructions to the U.S. depositary to take action to effect final settlement on its behalf by delivering or receiving debt securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream customers and Euroclear participants may not deliver instructions directly to their respective U.S. depositaries.

Because of time-zone differences, credits of debt securities received in Clearstream or Euroclear as a result of a transaction with a DTC participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such debt securities settled during such processing will be reported to the relevant Clearstream customers or Euroclear participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of debt securities by or through a Clearstream customer or a Euroclear participant to a DTC participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of debt securities among participants of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

*Definitive Notes and Paying Agents*

A beneficial owner of book-entry securities represented by a global security may exchange the securities for definitive (paper) securities only if:

(a) the depositary is unwilling or unable to continue as depositary for such global security and Citigroup is unable to find a qualified replacement for the depositary within 90 days;

(b) at any time the depositary ceases to be a clearing agency registered under the Securities Exchange Act of 1934; or

(c) Citigroup in its sole discretion decides to allow some or all book-entry securities to be exchangeable for definitive securities in registered form.

Unless otherwise specified in connection with a particular offering of debt securities, any global security that is exchangeable will be exchangeable in whole for definitive securities in registered form, with the same terms and of an equal aggregate principal amount, in denominations of $100,000 and whole multiples of $1,000. Definitive notes will be registered in the name or names of the person or persons specified by the depositary in a written instruction to the registrar of the securities. The Depositary may base its written instruction upon directions it receives from its participants.

If any of the events described above occurs, then the beneficial owners will be notified through the chain of intermediaries that definitive debt securities are available and notice will be published as described below under "— Notices." Beneficial owners of book-entry debt securities will then be entitled (1) to receive physical delivery in certificated form of definitive debt securities equal in principal amount to their beneficial interest and (2) to have the definitive debt securities registered in their names. Thereafter, the holders of the

definitive debt securities will be recognized as the "holders" of the debt securities under the applicable indenture.

The applicable indenture provides for the replacement of a mutilated, lost, stolen or destroyed definitive debt security, so long as the applicant furnishes to Citigroup and the trustee such security or indemnity and such evidence of ownership as they may require.

In the event definitive debt securities are issued, the holders of definitive debt securities will be able to receive payments of principal and interest on their debt securities at the office of Citigroup's paying agent maintained in the Borough of Manhattan (in the case of holders of U.S. dollar-denominated debt securities or holders of debt securities denominated in a foreign currency electing to receive payments in U.S. dollars) and in London (in the case of holders of debt securities denominated in a foreign currency not electing to receive payments in U.S. dollars) and, if the definitive debt securities are listed on the Luxembourg Stock Exchange, at the offices of the paying agent in Luxembourg. Payment of principal of a definitive debt security may be made only against surrender of the debt security to one of Citigroup's paying agents. Citigroup also has the option of making payments of interest by mailing checks to the registered holders of the debt securities.

Unless otherwise specified in connection with a particular offering of debt securities, Citigroup's paying agent in the Borough of Manhattan will be the corporate trust office of Citibank, N.A., located at 111 Wall Street, 14th Floor, New York, New York. Citigroup's paying agent in London is Citibank, N.A. London office, located at Citigroup Centre, Canada Square, Canary Wharf, London, England. Citigroup's paying agent and transfer agent in Luxembourg is Dexia Banque Internationale à Luxembourg S.A., currently located at 69, route d'Esch, L-2953 Luxembourg. As long as the debt securities are listed on the Luxembourg Stock Exchange, Citigroup will maintain a paying agent and transfer agent in Luxembourg. Any change in the Luxembourg paying agent and transfer agent will be published in London and Luxembourg. See "— Notices" below.

In the event definitive debt securities are issued, the holders of definitive debt securities will be able to transfer their securities, in whole or in part, by surrendering the debt securities for registration of transfer at the office of Citibank, N.A., listed above and, so long as definitive debt securities are listed on the Luxembourg Stock Exchange, at the offices of the transfer agent in Luxembourg, duly endorsed by or accompanied by a written instrument of transfer in form satisfactory to Citigroup and the securities registrar. A form of such instrument of transfer will be obtainable at the relevant office of Citibank, N.A. and the Luxembourg transfer agent. Upon surrender, Citigroup will execute, and the trustee will authenticate and deliver, new debt securities to the designated transferee in the amount being transferred, and a new debt security for any amount not being transferred will be issued to the transferor. Such new securities will be delivered free of charge at the relevant office of Citibank, N.A. or the Luxembourg transfer agent, as requested by the owner of such new debt securities. Citigroup will not charge any fee for the registration of transfer or exchange, except that it may require the payment of a sum sufficient to cover any applicable tax or other governmental charge payable in connection with the transfer.

*Notices*

So long as the global securities are held on behalf of DTC or any other clearing system, notices to holders of securities represented by a beneficial interest in the global securities may be given by delivery of the relevant notice to DTC or the alternative clearing system, as the case may be. In addition, so long as the securities are listed on the Luxembourg Stock Exchange, notices will also be made by publication in a leading newspaper of general circulation in Luxembourg, which is expected to be the *d'Wort*. Any notice will be deemed to have been given on the date of publication or, if published more than once, on the date of the first publication.

**Governing Law**

The senior debt indenture, the subordinated debt indenture and the debt securities for all purposes shall be governed by and construed in accordance with the laws of the State of New York.

**Unclaimed Funds**

Unless otherwise specified in connection with a particular offering of debt securities, all funds deposited with the relevant trustee or any paying agent for the payment of principal, interest, premium or additional amounts in respect of the debt securities that remain unclaimed for two years after the maturity date of the debt securities will be repaid to Citigroup upon its request. Thereafter, any right of any noteholder to such funds shall be enforceable only against Citigroup, and the trustee and paying agents will have no liability therefor.

**Prescription**

Under New York's statute of limitations, any legal action to enforce Citigroup's payment obligations evidenced by the debt securities must be commenced within six years after payment is due. Thereafter Citigroup's payment obligations will generally become unenforceable.

**EU Directive on the Taxation of Savings Income**

As of the date of this prospectus, under the European Council Directive 2003/48/EC on the taxation of savings income, Member States of the European Union are required to provide to the tax authorities of another Member State details of payments of interest (or similar income) paid by a person within its jurisdiction to an individual resident in that other Member State. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories have agreed to adopt similar measures (some of which involve a withholding system). As indicated above under "— Payment of Additional Amounts - Exceptions", no additional amounts will be payable with respect to a debt security if a payment on a debt security is reduced as a result of any tax, assessment or other governmental charge that is required to be made pursuant to any European Union directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, any such directive. Holders should consult their tax advisers regarding the implications of the directive in their particular circumstances.

**Senior Debt**

The senior debt securities will be issued under the senior debt indenture, will be unsecured obligations of Citigroup and will rank on an equal basis with all other unsecured senior indebtedness of Citigroup, whether existing at the time of issuance or created thereafter.

**Subordinated Debt**

The subordinated debt securities will be issued under the subordinated debt indenture, will be unsecured obligations of Citigroup, will rank subordinated and junior in right of payment, to the extent set forth in the subordinated debt indenture, to all "Senior Indebtedness" (as defined below) of Citigroup and will rank equally with all other unsecured and subordinated indebtedness of Citigroup, whether existing at the time of issuance or created thereafter, other than subordinated indebtedness which is designated as junior to the subordinated debt securities.

If Citigroup defaults in the payment of any principal of, or premium, if any, or interest on any Senior Indebtedness when it becomes due and payable after any applicable grace period, then, unless and until the default is cured or waived or ceases to exist, Citigroup cannot make a payment on account of or redeem or otherwise acquire the subordinated debt securities. Nevertheless, holders of subordinated debt securities may still receive and retain:

- securities of Citigroup or any other corporation provided for by a plan of reorganization or readjustment that are subordinate, at least to the same extent that the subordinated debt securities are subordinate to Senior Indebtedness; and

• payments made from a defeasance trust as described below.

If there is any insolvency, bankruptcy, liquidation or other similar proceeding relating to Citigroup, its creditors or its property, then all Senior Indebtedness must be paid in full before any payment may be made to any holders of subordinated debt securities. Holders of subordinated debt securities must return and deliver any payments received by them, other than in a plan of reorganization or through a defeasance trust as described below, directly to the holders of Senior Indebtedness until all Senior Indebtedness is paid in full. (*Subordinated Debt Indenture, Section 14.01*).

"Senior Indebtedness" means:

(1) the principal, premium, if any, and interest in respect of (A) indebtedness for money borrowed and (B) indebtedness evidenced by securities, notes, debentures, bonds or other similar instruments issued by Citigroup, including all indebtedness (whether now or hereafter outstanding) issued under the senior debt indenture, as the same may be amended, modified or supplemented from time to time;

(2) all capital lease obligations of Citigroup;

(3) all obligations of Citigroup issued or assumed as the deferred purchase price of property, all conditional sale obligations of Citigroup and all obligations of Citigroup under any conditional sale or title retention agreement, but excluding trade accounts payable in the ordinary course of business;

(4) all obligations, contingent or otherwise, of Citigroup in respect of any letters of credit, bankers acceptance, security purchase facilities and similar credit transactions;

(5) all obligations of Citigroup in respect of interest rate swap, cap or other agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other similar agreements;

(6) all obligations of the type referred to in clauses (1) through (5) above of other persons for the payment of which Citigroup is responsible or liable as obligor, guarantor or otherwise; and

(7) all obligations of the type referred to in clauses (1) through (6) above of other persons secured by any lien on any property or asset of Citigroup whether or not such obligation is assumed by Citigroup;

but Senior Indebtedness does not include:

(A) any indebtedness issued prior to July 23, 2004 under the subordinated debt indenture;

(B) any indebtedness issued by Citigroup under an indenture with Bank One Trust Company, N.A., dated as of July 17, 1998, as supplemented;

(C) any indebtedness issued to a Citigroup Trust before May 31, 2004 under the indenture, dated as of October 7, 1996, between Citigroup and JPMorgan Chase Bank, as supplemented (the "1996 junior subordinated debt indenture");

(D) any guarantee entered into by Citigroup before May 31, 2004 in respect of any preferred securities, capital securities or preference stock of a Citigroup Trust to which Citigroup issued any indebtedness under the 1996 junior subordinated debt indenture; and

(E) any indebtedness or any guarantee that is by its terms subordinated to, or ranks equally with the subordinated debt securities and the issuance of which (x) has received the concurrence or approval of the staff of the Federal Reserve Bank of New York or the staff of the Board of Governors of the Federal Reserve System or (y) does not at the time of issuance prevent the subordinated debt securities from qualifying for Tier 2 capital treatment (irrespective of any limits on the amount of Citigroup's Tier 2 capital) under the applicable capital adequacy guidelines, regulations, policies or published interpretations of the Board of Governors of the Federal Reserve System.

"Citigroup Trust" means each of Citigroup Capital II, Citigroup Capital VI, Citigroup Capital VII, Citigroup Capital VIII, Citigroup Capital IX, Citigroup Capital X, Citigroup Capital XI, Citigroup Capital XII, Citigroup Capital XIII, each a Delaware statutory business trust.

**Covenants**

*Limitations on Liens.* The senior debt indenture provides that Citigroup will not, and will not permit any Subsidiary to, incur, issue, assume or guarantee any indebtedness for money borrowed if such indebtedness is secured by a pledge of, lien on, or security interest in any shares of Voting Stock of any Significant Subsidiary, without providing that each series of senior debt securities and, at Citigroup's option, any other senior indebtedness ranking equally with such series of senior debt securities, is secured equally and ratably with such indebtedness. This limitation shall not apply to indebtedness secured by a pledge of, lien on or security interest in any shares of Voting Stock of any corporation at the time it becomes a Significant Subsidiary, including any renewals or extensions of such secured indebtedness (*Senior Debt Indenture, Section 5.04*). The subordinated debt indenture does not contain a similar provision.

"Significant Subsidiary" means a Subsidiary, including its Subsidiaries, that meets any of the following conditions:

- Citigroup's and its other Subsidiaries' investments in and advances to the Subsidiary exceed 10 percent of the total assets of Citigroup and its Subsidiaries consolidated as of the end of the most recently completed fiscal year;
- Citigroup's and its other Subsidiaries' proportionate share of the total assets of the Subsidiary after intercompany eliminations exceeds 10 percent of the total assets of Citigroup and its Subsidiaries consolidated as of the end of the most recently completed fiscal year; or
- Citigroup's and its other Subsidiaries' equity in the income from continuing operations before income taxes, extraordinary items and cumulative effect of a change in accounting principles of the Subsidiary exceeds 10 percent of such income of Citigroup and its Subsidiaries consolidated for the most recently completed fiscal year.

"Subsidiary" means any corporation of which securities entitled to elect at least a majority of the corporation's directors shall at the time be owned, directly or indirectly, by Citigroup, and/or one or more Subsidiaries, except securities entitled to vote for directors only upon the happening of a contingency.

"Voting Stock" means capital stock, the holders of which have general voting power under ordinary circumstances to elect at least a majority of the board of directors of a corporation, except capital stock that carries only the right to vote conditioned on the happening of an event regardless of whether such event shall have happened (*Senior Debt Indenture, Sections 1.02 and 5.04*).

*Limitations on Mergers and Sales of Assets.* The indentures provide that Citigroup will not merge or consolidate with another corporation or sell other than for cash or lease all or substantially all its assets to another corporation, or purchase all or substantially all the assets of another corporation unless:

- either (1) Citigroup is the continuing corporation, or (2) the successor corporation, if other than Citigroup, expressly assumes by supplemental indenture the obligations evidenced by the securities issued pursuant to the indenture and
- in the case of the senior debt indenture or if provided in the applicable prospectus supplement for a series of subordinated debt, immediately after the transaction, there would not be any default in the performance of any covenant or condition of the indenture (*Senior Debt Indenture, Sections 5.05 and 14.01; Subordinated Debt Indenture, Section 15.01*).

*Limitations on Future Issuances of Subordinated Debt Securities under the Subordinated Debt Indenture.* The subordinated debt indenture provides that any subordinated debt securities issued under the subordinated debt indenture shall either (x) be issued with the concurrence or approval of the staff of the Federal Reserve Bank of New York or the staff of the Board of Governors of the Federal Reserve System or (y) qualify at the

time of issuance for Tier 2 capital treatment (irrespective of any limits on the amount of Citigroup's Tier 2 capital) under the applicable capital adequacy guidelines, regulations, policies or published interpretations of the Board of Governors of the Federal Reserve System.

Other than the restrictions described above, the indentures do not contain any covenants or provisions that would protect holders of the debt securities in the event of a highly leveraged transaction.

**Modification of the Indentures**

Under the indentures, Citigroup and the relevant trustee can enter into supplemental indentures to establish the form and terms of any series of debt securities without obtaining the consent of any holder of debt securities.

Citigroup and the trustee may, with the consent of the holders of at least 66⅔% in aggregate principal amount of the senior debt securities of a series or at least a majority in aggregate principal amount of the subordinated debt securities of a series, modify the applicable indenture or the rights of the holders of the securities of such series to be affected.

No such modification may, without the consent of the holder of each security so affected:

- change the fixed maturity of any such securities;
- reduce the rate of interest on such securities;
- reduce the principal amount of such securities or the premium, if any, on such securities;
- reduce the amount of the principal of any securities issued originally at a discount;
- change the currency in which any such securities are payable; or
- impair the right to sue for the enforcement of any such payment on or after the maturity of such securities.

In addition, no such modification may:

- reduce the percentage of securities referred to above whose holders need to consent to the modification without the consent of such holders; or
- change, without the written consent of the trustee, the rights, duties or immunities of the trustee (*Sections 13.01 and 13.02*).

In addition, the subordinated debt indenture may not be amended without the consent of each holder of subordinated debt securities affected thereby to modify the subordination of the subordinated debt securities issued under that indenture in a manner adverse to the holders of the subordinated debt securities (*Subordinated Debt Indenture, Section 13.02*).

**Events of Default and Defaults**

Events of default under the senior debt indenture and defaults under the subordinated debt indenture are:

- failure to pay required interest on any debt security of such series for 30 days;
- failure to pay principal, other than a scheduled installment payment to a sinking fund or premium, if any, on any debt security of such series when due;
- failure to make any required scheduled installment payment to a sinking fund for 30 days on debt securities of such series;
- failure to perform for 90 days after notice any other covenant in the relevant indenture other than a covenant included in the relevant indenture solely for the benefit of a series of debt securities other than such series; and

- certain events of bankruptcy or insolvency, whether voluntary or not (*Senior Debt Indenture, Section 6.01; Subordinated Debt Indenture, Section 6.07*).

Unless otherwise specified in connection with a particular offering of subordinated debt, the only events of default specified in the subordinated debt indenture are events of insolvency or bankruptcy, whether voluntary or not. There is no event of default, and accordingly there is no right of acceleration, in the case of a default in the payment of principal of, premium, if any, or interest on, subordinated debt securities, the performance of any other covenant of Citigroup in the subordinated indenture or any other default that is not also an event of default (*Subordinated Debt Indenture, Sections 6.01* and *6.02*).

If an event of default regarding debt securities of any series issued under the indentures should occur and be continuing, either the trustee or the holders of 25% in the principal amount of outstanding debt securities of such series may declare each debt security of that series due and payable (*Section 6.02*). Citigroup is required to file annually with the trustee a statement of an officer as to the fulfillment by Citigroup of its obligations under the indenture during the preceding year (*Senior Debt Indenture, Section 5.06; Subordinated Debt Indenture, Section 5.04*).

No event of default regarding one series of senior debt securities issued under the senior debt indenture is necessarily an event of default regarding any other series of senior debt securities (*Senior Debt Indenture, Section 6.02*).

Holders of a majority in principal amount of the outstanding debt securities of any series will be entitled to control certain actions of the trustee under the indentures and to waive past defaults regarding such series (*Sections 6.02 and 6.06*). The trustee generally will not be under any obligation to act at the request, order or direction of any of the holders of debt securities, unless one or more of such holders shall have offered to the trustee reasonable security or indemnity (*Section 10.01*).

If an event of default occurs regarding a series of debt securities, the trustee may use any sums that it collects under the relevant indenture for its own reasonable compensation and expenses incurred prior to paying the holders of debt securities of such series (*Section 6.05*).

Before any holder of any series of debt securities may institute action for any remedy, except payment on such holder's debt security when due, the holders of not less than 25% in principal amount of the debt securities of that series outstanding must request the trustee to take action. Holders must also offer satisfactory security and indemnity against liabilities incurred by the trustee for taking such action (*Section 6.07*).

**Defeasance**

*Senior Debt Indenture.* Unless otherwise specified in connection with a particular offering of debt securities, after Citigroup has deposited with the trustee cash or U.S. government securities or, in the case of debt securities denominated in a currency other than U.S. dollars, after Citigroup has deposited with the trustee funds in the currency specified in the applicable prospectus supplement or securities of issuers specified in the applicable prospectus supplement issued in trust for the benefit of the holders sufficient to pay the principal of, premium, if any, and interest on the senior debt securities of such series when due, then Citigroup, at its option:

- will be deemed to have paid and satisfied its obligations on all outstanding senior debt securities of such series, which is known as "defeasance and discharge;" or
- will cease to be under any obligation, other than to pay when due the principal of, premium, if any, and interest on such senior debt securities, relating to the senior debt securities of such series, which is known as "covenant defeasance."

In the case of covenant defeasance, Citigroup must also deliver to the trustee an opinion of counsel to the effect that the holders of the senior debt securities of such series will have no United States federal income tax consequences as a result of such deposit.

When there is a defeasance and discharge, (1) the senior debt indenture will no longer govern the senior debt securities of such series, (2) Citigroup will no longer be liable for payment and (3) the holders of such senior debt securities will be entitled only to the deposited funds. When there is a covenant defeasance, however, Citigroup will continue to be obligated to make payments when due if the deposited funds are not sufficient.

The obligations and rights under the senior debt indenture regarding compensation, reimbursement and indemnification of the trustee, optional redemption, mandatory and optional scheduled installment payments, if any, registration of transfer and exchange of the senior debt securities of such series, replacement of mutilated, destroyed, lost or stolen senior debt securities and certain other administrative provisions will continue even if Citigroup exercises its defeasance and discharge or covenant defeasance options (*Senior Debt Indenture, Sections 11.03 and 11.04*).

Under current United States federal income tax law, defeasance and discharge should be treated as a taxable exchange of the senior debt securities for an interest in the trust. As a consequence, each holder of the senior debt securities would recognize gain or loss equal to the difference between the value of the holder's interest in the trust and holder's adjusted tax basis for the senior debt securities deemed exchanged, except to the extent attributable to accrued but unpaid interest, which will be taxable as ordinary income. Each holder would then be required to include in income his share of any income, gain and loss recognized by the trust. Even though United States federal income tax on the deemed exchange would be imposed on a holder, the holder would not receive any cash until the maturity or an earlier redemption of the senior debt securities, except for any current interest payments. Prospective investors are urged to consult their tax advisors as to the specific consequences of a defeasance and discharge, including the applicability and effect of tax laws other than the United States federal income tax law.

Under current United States federal income tax law, a covenant defeasance would not be treated as a taxable exchange of senior debt securities.

*Subordinated Debt Indenture.* Unless otherwise specified in connection with a particular offering of subordinated debt securities, the defeasance and discharge and covenant defeasance provisions contained in the subordinated debt indenture will apply and are substantially the same as those described above for the senior debt indenture (*Subordinated Debt Indenture, Sections 11.01, 11.02, 11.03, 11.04 and 11.05*).

Under the subordinated debt indenture, Citigroup must also deliver to the trustee an opinion of counsel to the effect that the holders of the subordinated debt securities will not recognize income, gain or loss for United States federal income tax purposes as a result of such deposit and defeasance and discharge or covenant defeasance and that United States federal income tax would be imposed on the holders in the same manner as if such defeasance and discharge had not occurred. In the case of a defeasance and discharge, such opinion must be based upon a ruling or administrative pronouncement of the Internal Revenue Service.

### Concerning the Trustees

Citigroup has had and may continue to have banking relationships with the trustees in the ordinary course of business.

## UNITED STATES TAX DOCUMENTATION REQUIREMENTS

### Introduction

The following discussion of United States tax documentation requirements does not deal with all aspects of United States federal income tax withholding or reporting that may be relevant to a beneficial owner of the debt securities. Investors should consult their tax advisors for specific advice concerning the acquisition, ownership and disposition of the debt securities.

**Documentation Required in Order to Obtain an Exemption from Withholding Tax**

A 30% United States federal withholding tax will generally apply to payments of interest on the debt securities to a non-United States person, unless such beneficial owner of a debt security takes one of the following steps to obtain an exemption from or reduction of the tax. The 30% tax, however, may be allowed as a refund or credit against the beneficial owner's United States federal income tax liability. In addition, if a beneficial owner of a debt security does not properly provide the required documentation, or if such documentation is not properly transmitted to and received by the United States person required to withhold United States federal income tax, the beneficial owner could, in certain circumstances, be subject to a backup withholding tax (currently at a rate of 28%) and will not be entitled to any additional amounts from Citigroup described under "Description of Debt Securities — Payment of Additional Amounts" above.

(1) *Non-United States Persons.* A beneficial owner of a debt security that is a non-United States person can obtain an exemption from the withholding tax by providing a properly completed Internal Revenue Service ("IRS") Form W-8BEN. This exemption is not available to:

- a controlled foreign corporation that is directly or indirectly related to Citigroup through stock ownership;
- a person that actually or constructively owns 10 percent or more of the total combined voting power of all classes of stock of Citigroup that are entitled to vote; or
- a bank that has invested in the debt security as an extension of credit in the ordinary course of its trade or business.

(2) *Non-United States Persons with Effectively Connected Income.* A beneficial owner of a debt security that is a non-United States person, including a non-United States corporation or bank with a United States branch, that conducts a trade or business in the United States with which the interest income on a debt security is effectively connected, can obtain an exemption from the withholding tax by providing a properly completed IRS Form W-8ECI.

(3) *Non-United States Persons Entitled to Income Tax Treaty Benefits.* A beneficial owner of a debt security that is a non-United States person entitled to the benefits of an income tax treaty to which the United States is a party can obtain an exemption from or reduction of the withholding tax by providing a properly completed IRS Form W-8BEN. The availability and extent of such exemption, however, will depend upon the terms of the particular income tax treaty.

(4) *United States Persons.* A beneficial owner of a debt security that is a United States person and is not otherwise exempt from backup withholding can obtain an exemption from the withholding tax by providing a properly completed IRS Form W-9.

**United States Federal Income Tax Reporting Procedure**

*Beneficial Owners.* A beneficial owner of a debt security is required to submit the appropriate IRS form under applicable procedures to the person through which the owner directly holds the debt security. For example, if the beneficial owner is listed directly on the books of Euroclear or Clearstream as the owner of the debt security, the IRS form must be provided to Euroclear or Clearstream, as the case may be.

*Non-United States Persons Through Which Debt Securities are Held.* A non-United States person through which a debt security is held (*e.g.*, a securities clearing organization, a bank, a financial institution, a custodian, a broker, a nominee, or any other person that acts as an agent for a beneficial owner of a debt security or otherwise holds the debt security on its behalf) generally must submit IRS Form W-8IMY to the person from which it receives payments of interest on the debt security, and may also be required to submit the IRS form of the beneficial owner of the debt security to such person and comply with other applicable procedures. Non-United States persons through which debt securities are held should consult their tax advisors regarding the tax documentation requirements applicable to them in their particular circumstances.

*Special Rules May Apply if the Debt Securities are Held by a Foreign Partnership.* In the event that the debt securities are held by a foreign partnership, special rules may apply in order that payments made on the debt securities will not be subject to United States federal withholding tax. Holders should consult their tax advisors with respect to the tax consequences to them of the ownership and disposition of the debt securities through a foreign partnership.

## UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

### Introduction

The following is a general summary of United States federal income tax considerations that may be relevant to a beneficial owner of a debt security. The summary is based on:

- laws;
- regulations;
- rulings; and
- decisions now in effect,

all of which may change, possibly with retroactive effect. This summary deals only with beneficial owners that will hold debt securities as capital assets. This summary does not address all of the United States federal income tax considerations that may be relevant to a beneficial owner of debt securities. For example, this summary does not address tax considerations applicable to investors to whom special tax rules may apply, including:

- banks or other financial institutions;
- tax-exempt entities;
- insurance companies;
- regulated investment companies;
- common trust funds;
- entities that are treated for United States federal income tax purposes as partnerships or other pass-through entities;
- controlled foreign corporations;
- dealers in securities or currencies;
- persons that will hold debt securities as a hedge or in order to hedge against currency risk or as a part of an integrated investment, including a "straddle" or "conversion transaction", comprised of a debt security and one or more other positions; or
- United States holders (as defined below) that have a functional currency other than the U.S. dollar.

Any special United States federal income tax considerations relevant to a particular issue of debt securities, including any indexed notes, floating rate notes, dual currency notes or notes providing for contingent payments, will be provided in the applicable prospectus supplement or pricing supplement, as the case may be. Purchasers of such notes should carefully examine the applicable prospectus supplement or pricing supplement, as the case may be, and should consult with their tax advisors with respect to such notes.

Prospective investors should consult their tax advisors in determining the tax consequences to them of purchasing, holding, and disposing of the debt securities, including the application to their particular situation of the United States federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

As used in this summary, the term "United States holder" means a beneficial owner of a debt security who is a United States person. The term "non-United States holder" means a beneficial owner of a debt security who is not a United States holder.

**United States Holders**

*Payments of Interest*

Payments of qualified stated interest, as defined below under "Original Issue Discount," on a debt security will be taxable to a United States holder as ordinary interest income at the time that such payments are accrued or are received, in accordance with the United States holder's method of tax accounting.

If such payments of interest are made in foreign currency with respect to a debt security that is denominated in such foreign currency, the amount of interest income realized by a United States holder that uses the cash method of tax accounting will be the U.S. dollar value of the specified currency payment based on the spot rate of exchange on the date of receipt regardless of whether the payment is in fact converted into U.S. dollars. No exchange gain or loss will be recognized with respect to the receipt of such payment (other than exchange gain or loss realized on the disposition of the foreign currency so received, see "Transactions in Foreign Currency", below). A United States holder of DTC debt securities that uses the cash method of tax accounting and receives a payment of interest in U.S. dollars should include in income the amount of U.S. dollars received. A United States holder that uses the accrual method of tax accounting will accrue interest income on the foreign currency debt security in the relevant foreign currency and translate the amount accrued into U.S. dollars based on:

- the average exchange rate in effect during the interest accrual period, or portion thereof, within such holder's taxable year; or
- at such holder's election, at the spot rate of exchange on (1) the last day of the accrual period, or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year, or (2) the date of receipt, if such date is within five business days of the last day of the accrual period.

Such election must be applied consistently by the United States holder to all debt instruments from year to year and can be changed only with the consent of the Internal Revenue Service (the "IRS"). A United States holder that uses the accrual method of tax accounting will recognize foreign currency gain or loss on the receipt of an interest payment made relating to a foreign currency debt security if the spot rate of exchange on the date the payment is received differs from the rate applicable to a previous accrual of that interest income. Such foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the debt securities.

*Purchase, Sale and Retirement of Debt Securities*

A United States holder's tax basis in a debt security generally will equal the cost of such debt security to such holder

- increased by any amounts includible in income by the holder as original issue discount ("OID") and market discount (each as described below) and
- reduced by any amortized premium and any payments other than payments of qualified stated interest (each as described below) made on such debt security.

In the case of a foreign currency debt security, the cost of such debt security to a United States holder will generally be the U.S. dollar value of the foreign currency purchase price on the date of purchase calculated at the spot rate of exchange on that date. In the case of a foreign currency debt security that is traded on an established securities market, a United States holder generally should determine the U.S. dollar value of the cost of such debt security by translating the amount paid in foreign currency into its U.S. dollar value at the spot rate of exchange (i) on the settlement date of the purchase in the case of a United States holder using the cash method of tax accounting and (ii) on the trade date, in the case of a United States

holder using the accrual method of tax accounting, unless such holder elects to use the spot rate applicable to cash method United States holders. The amount of any subsequent adjustments to a United States holder's tax basis in a foreign currency debt security in respect of OID, market discount and premium will be determined in the manner described under "Original Issue Discount," "Market Discount" and "Debt Securities Purchased at a Premium" below. The conversion of U.S. dollars to another specified currency and the immediate use of such specified currency to purchase a foreign currency debt security generally will not result in any exchange gain or loss for a United States holder.

Upon the sale, exchange, retirement or other taxable disposition (collectively, a "disposition") of a debt security, a United States holder generally will recognize gain or loss equal to the difference between (1) the amount realized on the disposition, less any accrued qualified stated interest, which will be taxable as ordinary income in the manner described above under "Payments of Interest," and (2) the United States holder's adjusted tax basis in such debt security. If a United States holder receives a specified currency other than the U.S. dollar in respect of such disposition of a debt security, the amount realized will be the U.S. dollar value of the specified currency received calculated at the spot rate of exchange on the date of disposition of the debt security.

In the case of a foreign currency debt security that is traded on an established securities market, a United States holder that receives a specified currency other than the U.S. dollar in respect of such disposition generally should determine the amount realized (as determined on the trade date) by translating that specified currency into its U.S. dollar value at the spot rate of exchange (i) on the settlement date of the disposition in the case of a United States holder using the cash method of tax accounting and (ii) on the trade date, in the case of a United States holder using the accrual method of tax accounting, unless such holder elects to use the spot rate applicable to cash method United States holders. The election available to accrual basis United States holders in respect of the purchase and sale of foreign currency debt securities traded on an established securities market, discussed above, must be applied consistently by the United States holder to all debt instruments from year to year and can be changed only with the consent of the IRS.

Except as discussed below in connection with foreign currency gain or loss, market discount and short-term debt securities, gain or loss recognized by a United States holder on the disposition of a debt security will generally be long term capital gain or loss if the United States holder's holding period for the debt security exceeds one year at the time of such disposition.

Gain or loss recognized by a United States holder on the disposition of a foreign currency debt security generally will be treated as ordinary income or loss to the extent that the gain or loss is attributable to changes in exchange rates during the period in which the holder held such debt security.

*Transactions in Foreign Currency*

Foreign currency received as interest on, or on a disposition of, a debt security will have a tax basis equal to its U.S. dollar value at the time such interest is received or at the time such proceeds are received. The amount of gain or loss recognized on a sale or other disposition of such foreign currency will be equal to the difference between (1) the amount of U.S. dollars, or the fair market value in U.S. dollars of the other property received in such sale or other disposition, and (2) the United States holder's tax basis in such foreign currency.

A United States holder that purchases a debt security with previously owned foreign currency will generally recognize gain or loss in an amount equal to the difference, if any, between such holder's tax basis in such foreign currency and the U.S. dollar fair market value of such debt security on the date of purchase. Any such gain or loss generally will be ordinary income or loss and will not be treated as interest income or expense. The conversion of U.S. dollars to foreign currency and the immediate use of such currency to purchase a debt security generally will not result in any exchange gain or loss for a United States holder.

*Original Issue Discount*

In General. Debt securities with a term greater than one year may be issued with OID for United States federal income tax purposes. Such debt securities are called OID debt securities in this prospectus. United States holders generally must accrue OID in gross income over the term of the OID debt securities on a constant yield basis, regardless of their regular method of tax accounting. As a result, United States holders generally will recognize taxable income in respect of an OID debt security in advance of the receipt of cash attributable to such income.

OID generally will arise if the stated redemption price at maturity of the debt security exceeds its issue price by more than a de minimis amount of 0.25% of the debt security's stated redemption price at maturity multiplied by the number of complete years to maturity. OID may also arise if a debt security has particular interest payment characteristics, such as interest holidays, interest payable in additional securities or stepped interest. For this purpose, the issue price of a debt security is the first price at which a substantial amount of debt securities is sold for cash, other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. The stated redemption price at maturity of a debt security is the sum of all payments due under the debt security, other than payments of qualified stated interest. The term qualified stated interest generally means stated interest that is unconditionally payable in cash or property, other than debt instruments of the issuer, at least annually during the entire term of the OID debt security at a single fixed rate of interest or, under particular conditions, based on one or more interest indices.

For each taxable year of a United States holder, the amount of OID that must be included in gross income in respect of an OID debt security will be the sum of the daily portions of OID for each day during such taxable year or any portion of such taxable year in which such a United States holder held the OID debt security. Such daily portions are determined by allocating to each day in an accrual period a pro rata portion of the OID allocable to that accrual period. Accrual periods may be of any length and may vary in length over the term of an OID debt security. However, accrual periods may not be longer than one year and each scheduled payment of principal or interest must occur on the first day or the final day of a period.

The amount of OID allocable to any accrual period generally will equal (1) the product of the OID debt security's adjusted issue price at the beginning of such accrual period multiplied by its yield to maturity (as adjusted to take into account the length of such accrual period), less (2) the amount, if any, of qualified stated interest allocable to that accrual period. The adjusted issue price of an OID debt security at the beginning of any accrual period will equal the issue price of the OID debt security, as defined above, (1) increased by previously accrued OID from prior accrual periods, and (2) reduced by any payment made on such debt security, other than payments of qualified stated interest, on or before the first day of the accrual period. The yield to maturity of an OID debt security is the discount rate (appropriately adjusted to reflect the length of accrual periods) that causes the present value on the issue date of all payments on the OID debt security to equal the issue price. In the case of an OID debt security that is a floating rate debt security, both the yield to maturity and the qualified stated interest will be determined for these purposes as though the OID debt security will bear interest in all periods at a fixed rate generally equal to the value, as of the issue date, of the floating interest rate on the OID debt security or, in the case of some floating rate debt securities, the rate that reflects the yield that is reasonably expected for the OID debt security. (Additional rules may apply if interest on a floating rate debt security is based on more than one interest index.)

Foreign Currency Debt Securities. In the case of an OID debt security that is also a foreign currency debt security, a United States holder should determine the U.S. dollar amount includible in income as OID for each accrual period by

- calculating the amount of OID allocable to each accrual period in the specified currency using the constant-yield method described above and
- translating the amount of the specified currency so derived at the average exchange rate in effect during that accrual period, or portion of such accrual period within a United States holder's taxable year, or, at the United States holder's election (as described above under "Payments of Interest"), at

the spot rate of exchange on (1) the last day of the accrual period, or the last day of the taxable year within such accrual period if the accrual period spans more than one taxable year, or (2) on the date of receipt, if such date is within five business days of the last day of the accrual period.

All payments on an OID debt security, other than payments of qualified stated interest, will generally be viewed first as payments of previously accrued OID, to the extent thereof, with payments attributed first to the earliest accrued OID, and then as payments of principal. Upon the receipt of an amount attributable to OID, whether in connection with a payment of an amount that is not qualified stated interest or the disposition of the OID debt security, a United States holder will recognize ordinary income or loss measured by the difference between (1) the amount received and (2) the amount accrued. The amount received will be translated into U.S. dollars at the spot rate of exchange on the date of receipt or on the date of disposition of the OID debt security. The amount accrued will be determined by using the spot rate of exchange applicable to such previous accrual.

Acquisition Premium. A United States holder that purchases an OID debt security for an amount less than or equal to the remaining redemption amount, but in excess of the OID debt security's adjusted issue price, generally is permitted to reduce the daily portions of OID by a fraction. The numerator of such fraction is the excess of the United States holder's adjusted tax basis in the OID debt security immediately after its purchase over the OID debt security's adjusted issue price. The denominator of such fraction is the excess of the remaining redemption amount over the OID debt security's adjusted issue price. For purposes of this prospectus,

"acquisition premium" means the excess of the purchase price paid by a United States holder for an OID debt security over the OID debt security's adjusted issue price; and

"remaining redemption amount" means the sum of all amounts payable on an OID debt security after the purchase date other than payments of qualified stated interest.

The debt securities may have special redemption, repayment or interest rate reset features, as indicated in the applicable prospectus supplement or pricing supplement, as the case may be. Debt securities containing such features, in particular OID debt securities, may be subject to special rules that differ from the general rules discussed above. Accordingly, purchasers of debt securities with such features should carefully examine the applicable prospectus supplement or pricing supplement, as the case may be, and should consult their tax advisors relating to such debt securities.

*Market Discount*

If a United States holder purchases a debt security, other than a short-term debt security, for an amount that is less than the debt security's stated redemption price at maturity or, in the case of an OID debt security, for an amount that is less than the debt security's revised issue price, i.e., the debt security's issue price increased by the amount of accrued OID, the debt security will be considered to have market discount. The market discount rules are subject to a de minimis rule similar to the rule relating to de minimis OID, described above (in the second paragraph under "Original Issue Discount"). Any gain recognized by the United States holder on the disposition of debt securities having market discount generally will be treated as ordinary income to the extent of the market discount that accrued on the debt security while held by such United States holder.

Alternatively, the United States holder may elect to include market discount in income currently over the life of the debt security. Such an election will apply to market discount debt securities acquired by the United States holder on or after the first day of the first taxable year to which such election applies and is revocable only with the consent of the IRS. Market discount will accrue on a straight-line basis unless the United States holder elects to accrue the market discount on a constant-yield method. Such an election will apply to the debt security to which it is made and is irrevocable. Unless the United States holder elects to include market discount in income on a current basis, as described above, the United States holder could be required to defer the deduction of a portion of the interest paid on any indebtedness incurred or maintained to purchase or carry the debt security.

Market discount on a foreign currency debt security will be accrued by a United States holder in the specified currency. The amount includible in income by a United States holder in respect of such accrued market discount will be the U.S. dollar value of the amount accrued. This is generally calculated at the spot rate of exchange on the date that the debt security is disposed of by the United States holder. Any accrued market discount on a foreign currency debt security that is currently includible in income will be translated into U.S. dollars at the average exchange rate for the accrual period or portion of such accrual period within the United States holder's taxable year.

*Short-Term Debt Securities*

The rules set forth above also will generally apply to debt securities having maturities of not more than one year from the date of issuance. Those debt securities are called short-term debt securities in this prospectus. Modifications apply to these general rules.

First, none of the interest on a short-term debt security is treated as qualified stated interest but instead is treated as part of the short-term debt security's stated redemption price at maturity, thereby giving rise to OID. Thus, all short-term debt securities will be OID debt securities. OID will be treated as accruing on a short-term debt security ratably, or at the election of a United States holder, under a constant yield method.

Second, a United States holder of a short-term debt security that uses the cash method of tax accounting will generally not be required to include OID in respect of the short-term debt security in income on a current basis. Such a United States holder may not be allowed to deduct all of the interest paid or accrued on any indebtedness incurred or maintained to purchase or carry such debt security until the maturity of the debt security or its earlier disposition in a taxable transaction. In addition, such a United States holder will be required to treat any gain realized on a disposition of the debt security as ordinary income to the extent of the holder's accrued OID on the debt security, and short-term capital gain to the extent the gain exceeds accrued OID. A United States holder of a short-term debt security using the cash method of tax accounting may, however, elect to accrue OID into income on a current basis. In such case, the limitation on the deductibility of interest described above will not apply. A United States holder using the accrual method of tax accounting and some cash method holders generally will be required to include OID on a short-term debt security in income on a current basis.

Third, any United States holder of a short-term debt security, whether using the cash or accrual method of tax accounting, can elect to accrue the acquisition discount, if any, on the debt security on a current basis. If such an election is made, the OID rules will not apply to the debt security. Acquisition discount is the excess of the debt security's stated redemption price at maturity over the holder's purchase price for the debt security. Acquisition discount will be treated as accruing ratably or, at the election of the United States holder, under a constant-yield method based on daily compounding.

As described above, the debt securities may have special redemption features. These features may affect the determination of whether a debt security has a maturity of not more than one year and thus is a short-term debt security. Purchasers of debt securities with such features should carefully examine the applicable prospectus supplement or pricing supplement, as the case may be, and should consult their tax advisors in relation to such features.

*Debt Securities Purchased at a Premium*

A United States holder that purchases a debt security for an amount in excess of the remaining redemption amount will be considered to have purchased the debt security at a premium and the OID rules will not apply to such holder. Such holder may elect to amortize such premium, as an offset to interest income, using a constant-yield method, over the remaining term of the debt security. Such election, once made, generally applies to all debt instruments held by the United States holder at the beginning of the first taxable year to which the election applies and to all debt instruments subsequently acquired by the United States holder. Such election may be revoked only with the consent of the IRS. A United States holder that elects to amortize such premium must reduce its tax basis in a debt security by the amount of the premium amortized during its holding period. For a United States holder that does not elect to amortize bond premium, the amount of such premium will be included in the United States holder's tax basis when the debt security

matures or is disposed of by the United States holder. Therefore, a United States holder that does not elect to amortize premium and holds the debt security to maturity will generally be required to treat the premium as capital loss when the debt security matures.

Amortizable bond premium in respect of a foreign currency debt security will be computed in the specified currency and will reduce interest income in the specified currency. At the time amortized bond premium offsets interest income, exchange gain or loss, which will be taxable as ordinary income or loss, will be realized on the amortized bond premium on such debt security based on the difference between (1) the spot rate of exchange on the date or dates such premium is recovered through interest payments on the debt security and (2) the spot rate of exchange on the date on which the United States holder acquired the debt security. See "Original Issue Discount — Acquisition Premium" above for a discussion of the treatment of a debt security purchased for an amount less than or equal to the remaining redemption amount but in excess of the debt security's adjusted issue price.

*Information Reporting and Backup Withholding*

Information returns may be required to be filed with the IRS relating to payments made to particular United States holders of debt securities. In addition, United States holders may be subject to a backup withholding tax on such payments if they do not provide their taxpayer identification numbers to the trustee in the manner required, fail to certify that they are not subject to backup withholding tax, or otherwise fail to comply with applicable backup withholding tax rules. United States holders may also be subject to information reporting and backup withholding tax with respect to the proceeds from a disposition of the debt securities. Any amounts withheld under the backup withholding rules will be allowed as a credit against the United States holder's United States federal income tax liability provided the required information is timely furnished to the IRS.

**Non-United States Holders**

Under current United States federal income tax law:

- withholding of United States federal income tax will not apply to a payment on a debt security to a non-United States holder, provided that,

  (1) the holder does not actually or constructively own 10% or more of the total combined voting power of all classes of stock of Citigroup entitled to vote and is not a controlled foreign corporation related to Citigroup through stock ownership;

  (2) the beneficial owner provides a statement signed under penalties of perjury that includes its name and address and certifies that it is a non-United States holder in compliance with applicable requirements; and

  (3) neither Citigroup nor its paying agent has actual knowledge or reason to know that the beneficial owner of the debt security is a United States holder.

- withholding of United States federal income tax will generally not apply to any gain realized on the disposition of a debt security.

Despite the above, if a non-United States holder is engaged in a trade or business in the United States (or, if certain tax treaties apply, if the non-United States holder maintains a permanent establishment within the United States) and the interest on the debt securities is effectively connected with the conduct of that trade or business (or, if certain tax treaties apply, attributable to that permanent establishment), such non-United States holder will be subject to United States federal income tax on the interest on a net income basis in the same manner as if such non-United States holder were a United States holder. In addition, a non-United States holder that is a foreign corporation engaged in a trade or business in the United States may be subject to a 30% (or, if certain tax treaties apply, such lower rates as provided) branch profits tax.

Any gain realized on the disposition of a debt security generally will not be subject to United States federal income tax unless:

- that gain is effectively connected with the non-United States holder's conduct of a trade or business in the United States (or, if certain tax treaties apply, is attributable to a permanent establishment maintained by the non-United States holder within the United States); or
- the non-United States holder is an individual who is present in the United States for 183 days or more in the taxable year of the disposition and certain other conditions are met.

In general, backup withholding and information reporting will not apply to a payment of interest on a debt security to a non-United States holder, or to proceeds from the disposition of a debt security by a non-United States holder, in each case, if the holder certifies under penalties of perjury that it is a non-United States holder and neither Citigroup nor its paying agent has actual knowledge to the contrary. Any amounts withheld under the backup withholding rules will be refunded or credited against the non-United States holder's United States federal income tax liability provided the required information is timely furnished to the IRS. In certain circumstances, if a debt security is not held through a qualified intermediary, the amount of payments made on such debt security, the name and address of the beneficial owner and the amount, if any, of tax withheld may be reported to the IRS.

## CURRENCY CONVERSIONS AND FOREIGN EXCHANGE RISKS AFFECTING DEBT SECURITIES DENOMINATED IN A FOREIGN CURRENCY

### Currency Conversions

Unless otherwise specified in connection with a particular offering of debt securities, debt securities denominated in a foreign currency which are offered and sold in the United States (''DTC debt securities'') will be represented by beneficial interests in fully registered permanent global debt securities (''DTC global debt securities'') which will be deposited with Citibank, N.A. London office, as custodian for, and registered in the name of Cede & Co., as nominee for, DTC. While interests in the DTC debt securities are held through the DTC global debt securities, all payments in respect of such debt securities will be made in U.S. dollars, except as otherwise provided in this section, in ''Description of Debt Securities — Book-Entry Procedures and Settlement'' above or in the applicable prospectus supplement.

As determined by the exchange agent under the terms of the fiscal agency agreement, in accordance with reasonable market practice, the amount of U.S. dollars payable in respect of any particular payment under the DTC debt securities will be equal to the amount of the relevant foreign currency/U.S.$ rate of exchange prevailing as of 11:00 a.m. (London time) on the day which is two Business Days prior to the relevant payment date, less any costs incurred by the exchange agent for such conversion (to be shared pro rata among the holders of DTC debt securities accepting U.S. dollar payments in the proportion of their respective holdings), all in accordance with the fiscal agency agreement. If an exchange rate bid quotation is not available, the exchange agent shall obtain a bid quotation from a leading foreign exchange bank in London selected by the exchange agent for such purpose after consultation with Citigroup. If no bid quotation from a leading foreign exchange bank is available, payment will be in the relevant foreign currency to the account or accounts specified by DTC to the exchange agent. For purposes of this paragraph, a ''Business Day'' is a day on which commercial banks and foreign exchange markets settle payments in each of New York City and London.

Notwithstanding the above and unless otherwise specified in connection with a particular offering of debt securities, the holder of a beneficial interest in the DTC debt securities may elect to receive payments under such DTC debt securities in the relevant foreign currency by notifying the DTC participant through which its debt securities are held on or prior to the applicable record date of (1) such investor's election to receive all or a portion of such payment in the relevant foreign currency and (2) wire instructions to a relevant foreign currency account outside the United States. DTC must be notified of such election and wire transfer instructions on or prior to the third New York business day after such record date for any payment of interest and on or prior to the twelfth day prior to the payment of principal. DTC will notify the fiscal agent and the

paying agent of such election and wire transfer instructions on or prior to 5:00 p.m. New York City time on the fifth New York business day after such record date for any payment of interest and on or prior to 5:00 p.m. New York City time on the tenth day prior to the payment of principal. For purposes of this paragraph, "New York business day" means any day other than a Saturday or Sunday or a day on which banking institutions in New York City are authorized or required by law or executive order to close.

If complete instructions are forwarded to DTC through DTC participants and by DTC to the fiscal agent and the paying agent on or prior to such dates, such holder will receive payment in the relevant foreign currency outside DTC; otherwise, only U.S. dollar payments will be made by the fiscal agent to DTC, unless otherwise specified in connection with a particular offering of debt securities. All costs of such payment by wire transfer will be borne by holders of beneficial interests receiving such payments by deduction from such payments.

Although DTC has agreed to the foregoing procedures, it is under no obligation to perform or continue to perform these procedures, and these procedures may be modified or discontinued at any time.

Holders of the debt securities will be subject to foreign exchange risks as to payments of principal and interest that may have important economic and tax consequences to them. For further information as to such consequences, see "— Foreign Exchange Risks" below.

**Judgments in a Foreign Currency**

The debt securities will be governed by, and construed in accordance with, the laws of New York State. Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than the U.S. dollar. A 1987 amendment to the Judiciary Law of New York State provides, however, that an action based upon an obligation denominated in a currency other than U.S. dollars will be rendered in the foreign currency of the underlying obligation. Any judgment awarded in such an action will be converted into U.S. dollars at the rate of exchange prevailing on the date of the entry of the judgment or decree.

**Foreign Exchange Risks**

An investment in debt securities which are denominated in, and all payments in respect of which are to be made in, a currency other than the currency of the country in which the purchaser is a resident or the currency in which the purchaser conducts its business or activities (the "home currency") entails significant risks that are not associated with a similar investment in a security denominated in the home currency. Such risks include, without limitation, the possibility of significant changes in the rates of exchange between the home currency and the relevant foreign currency and the possibility of the imposition or modification of foreign exchange controls with respect to the relevant foreign currency. Such risks generally depend on economic and political events over which Citigroup has no control. In recent years, rates of exchange for foreign currencies have been volatile and such volatility may be expected to continue in the future. Fluctuations in any particular exchange rate that have occurred in the past are not necessarily indicative, however, of fluctuations in such rate that may occur during the term of the debt securities. Depreciation of the relevant foreign currency against the relevant home currency could result in a decrease in the effective yield of such relevant foreign denominated debt security below its coupon rate and, in certain circumstances, could result in a loss to the investor on a home currency basis.

This description of foreign currency risks does not describe all the risks of an investment in debt securities denominated in a currency other than the home currency. Prospective investors should consult with their financial and legal advisors as to the risks involved in an investment in a particular offering of debt securities.

## DESCRIPTION OF COMMON STOCK WARRANTS

The following briefly summarizes the material terms and provisions of the common stock warrants. You should read the particular terms of the common stock warrants that are offered by Citigroup, which will be described in more detail in a prospectus supplement. The prospectus supplement will also state whether any of

the general provisions summarized below do not apply to the common stock warrants being offered. The prospectus supplement may add, update or change the terms and conditions of the common stock warrants as described in this prospectus.

Citigroup may offer common stock warrants pursuant to which it may sell or purchase common stock. Common stock warrants may be issued independently or together with any securities and may be attached to or separate from those securities. The common stock warrants will be issued under common stock warrant agreements to be entered into between Citigroup and a bank or trust company, as common stock warrant agent. Except as otherwise stated in a prospectus supplement, the common stock warrant agent will act solely as the agent of Citigroup under the applicable common stock warrant agreement and will not assume any obligation or relationship of agency or trust for or with any owners of common stock warrants. A copy of the form of common stock warrant agreement, including the form of common stock warrant certificate, will be filed as an exhibit to a document incorporated by reference in the registration statement of which this prospectus forms a part. You should read the more detailed provisions of the common stock warrant agreement and the common stock warrant certificate for provisions that may be important to you.

**General**

The particular terms of each issue of common stock warrants, the common stock warrant agreement relating to the common stock warrants and the common stock warrant certificates representing common stock warrants will be described in the applicable prospectus supplement, including, as applicable:

- the title of the common stock warrants;
- the offering price of the common stock warrants;
- the aggregate number of common stock warrants and the aggregate number of shares of common stock purchasable upon exercise of the common stock warrants;
- the currency or currency units in which the offering price, if any, and the exercise price are payable;
- the designation and terms of the common stock with which the common stock warrants are issued, and the number of common stock warrants issued with each share of common stock;
- the date, if any, on and after which the common stock warrants and the related common stock will be separately transferable;
- the minimum or maximum number of the common stock warrants that may be exercised at any one time;
- the date on which the right to exercise the common stock warrants will commence and the date on which the right will expire;
- a discussion of United States federal income tax, accounting or other considerations applicable to the common stock warrants;
- anti-dilution provisions of the common stock warrants, if any;
- redemption or call provisions, if any, applicable to the common stock warrants; and
- any additional terms of the common stock warrants, including terms, procedures and limitations relating to the exchange and exercise of the common stock warrants.

**No Rights as Stockholders**

Holders of common stock warrants will not be entitled, solely by virtue of being holders, to vote, to consent, to receive dividends, to receive notice as stockholders with respect to any meeting of stockholders for the election of directors or any other matter, or to exercise any rights whatsoever as a holder of the common stock purchasable upon exercise of the common stock warrants.

**Merger, Consolidation, Sale or Other Disposition**

If at any time there is a merger or consolidation involving Citigroup or a sale, transfer, conveyance, other than lease, or other disposition of all or substantially all of the assets of Citigroup, then the assuming corporation will succeed to the obligations of Citigroup under the common stock warrant agreement and the related common stock warrants. Citigroup will then be relieved of any further obligation under the common stock warrant agreement and common stock warrants.

## DESCRIPTION OF INDEX WARRANTS

The following briefly summarizes the material terms and provisions of the index warrants, other than pricing and related terms disclosed in the accompanying prospectus supplement. You should read the particular terms of the index warrants that are offered by Citigroup, which will be described in more detail in a prospectus supplement. The prospectus supplement will also state whether any of the general provisions summarized below do not apply to the index warrants being offered.

Index warrants may be issued independently or together with debt securities and may be attached to, or separate from, any such offered securities. Each series of index warrants will be issued under a separate index warrant agreement to be entered into between Citigroup and a bank or trust company, as index warrant agent. A single bank or trust company may act as index warrant agent for more than one series of index warrants. The index warrant agent will act solely as the agent of Citigroup under the applicable index warrant agreement and will not assume any obligation or relationship of agency or trust for or with any owners of index warrants. A copy of the form of index warrant agreement, including the form of certificate or global certificate that will represent the index warrant certificate, will be filed as an exhibit to a document incorporated by reference in the registration statement of which this prospectus forms a part. You should read the more detailed provisions of the index warrant agreement and the index warrant certificate or index warrant global certificate for provisions that may be important to you.

**General**

The index warrant agreement does not limit the number of index warrants that may be issued. Citigroup will have the right to "reopen" a previous series of index warrants by issuing additional index warrants of such series.

Each index warrant will entitle the warrant holder to receive from Citigroup, upon exercise, cash or securities. The amount in cash or number of securities will be determined by referring to an index calculated on the basis of prices, yields, levels or other specified objective measures in respect of:

- one or more specified securities or securities indices;
- one or more specified foreign currencies or currency indices;
- a combination thereof; or
- changes in such measure or differences between two or more such measures.

The prospectus supplement for a series of index warrants will describe the formula or methodology to be applied to the relevant index or indices to determine the amount payable or distributable on the index warrants.

If so specified in the prospectus supplement, the index warrants will entitle the warrant holder to receive from Citigroup a minimum or maximum amount upon automatic exercise at expiration or the happening of any other event described in the prospectus supplement.

The index warrants will be deemed to be automatically exercised upon expiration. Upon such automatic exercise, warrant holders will be entitled to receive the cash amount or number of securities due, if any, on such exercise.

You should read the prospectus supplement applicable to a series of index warrants for any circumstances in which the payment or distribution or the determination of the payment or distribution on the index warrants may be postponed or exercised early or cancelled. The amount due after any such delay or postponement, or early exercise or cancellation, will be described in the applicable prospectus supplement.

Unless otherwise specified in connection with a particular offering of index warrants, Citigroup will not purchase or take delivery of or sell or deliver any securities or currencies, including the underlying assets, other than the payment of any cash or distribution of any securities due on the index warrants, from or to warrant holders pursuant to the index warrants.

The applicable prospectus supplement relating to a series of index warrants will describe the following:

- the aggregate number of such index warrants;
- the offering price of such index warrants;
- the measure or measures by which payment or distribution on such index warrants will be determined;
- certain information regarding the underlying securities, foreign currencies or indices;
- the amount of cash or number of securities due, or the means by which the amount of cash or number of securities due may be calculated, on exercise of the index warrants, including automatic exercise, or upon cancellation;
- the date on which the index warrants may first be exercised and the date on which they expire;
- any minimum number of index warrants exercisable at any one time;
- any maximum number of index warrants that may, at Citigroup's election, be exercised by all warrant holders or by any person or entity on any day;
- any provisions permitting a warrant holder to condition an exercise of index warrants;
- the method by which the index warrants may be exercised;
- the currency in which the index warrants will be denominated and in which payments on the index warrants will be made or the securities that may be distributed in respect of the index warrants;
- the method of making any foreign currency translation applicable to payments or distributions on the index warrants;
- the method of providing for a substitute index or indices or otherwise determining the amount payable in connection with the exercise of index warrants if an index changes or is no longer available;
- the time or times at which amounts will be payable or distributable in respect of such index warrants following exercise or automatic exercise;
- any national securities exchange on, or self-regulatory organization with, which such index warrants will be listed;
- any provisions for issuing such index warrants in certificated form;
- if such index warrants are not issued in book-entry form, the place or places at and the procedures by which payments or distributions on the index warrants will be made; and
- any other terms of such index warrants.

Prospective purchasers of index warrants should be aware of special United States federal income tax considerations applicable to instruments such as the index warrants. The prospectus supplement relating to each series of index warrants will describe these tax considerations. The summary of United States federal income tax considerations contained in the prospectus supplement will be presented for informational purposes only, however, and will not be intended as legal or tax advice to prospective purchasers. You are urged to consult your tax advisors before purchasing any index warrants.

**Listing**

Unless otherwise specified in connection with a particular offering of index warrants, the index warrants will be listed on a national securities exchange or with a self-regulatory organization, in each case as specified in the prospectus supplement. It is expected that such organization will stop trading a series of index warrants as of the close of business on the related expiration date of such index warrants.

**Modification**

The index warrant agreement and the terms of the related index warrants may be amended by Citigroup and the index warrant agent, without the consent of the holders of any index warrants, for any of the following purposes:

- curing any ambiguity or curing, correcting or supplementing any defective or inconsistent provision;
- maintaining the listing of such index warrants on any national securities exchange or with any other self-regulatory organization;
- registering such index warrants under the Exchange Act, permitting the issuance of individual index warrant certificates to warrant holders, reflecting the issuance by Citigroup of additional index warrants of the same series or reflecting the appointment of a successor depositary; or
- for any other purpose that Citigroup may deem necessary or desirable and which will not materially and adversely affect the interests of the warrant holders.

Citigroup and the index warrant agent also may modify or amend the index warrant agreement and the terms of the related index warrants, with the consent of the holders of not less than a majority of the then outstanding warrants of each series affected by such modification or amendment, for any purpose. However, no such modification or amendment may be made without the consent of each holder affected thereby if such modification or amendment:

- changes the amount to be paid to the warrant holder or the manner in which that amount is to be determined;
- shortens the period of time during which the index warrants may be exercised;
- otherwise materially and adversely affects the exercise rights of the holders of the index warrants; or
- reduces the percentage of the number of outstanding index warrants the consent of whose holders is required for modification or amendment of the index warrant agreement or the terms of the related index warrants.

**Merger, Consolidation, Sale or Other Disposition**

If at any time there is a merger or consolidation involving Citigroup or a sale, transfer, conveyance, other than lease, or other disposition of all or substantially all of the assets of Citigroup, then the assuming corporation will succeed to the obligations of Citigroup under the index warrant agreement and the related index warrants. Citigroup will then be relieved of any further obligation under the index warrant agreement and index warrants.

**Enforceability of Rights by Warrant Holders**

Any warrant holder may, without the consent of the index warrant agent or any other warrant holder, enforce by appropriate legal action on its own behalf his right to exercise, and to receive payment for, its index warrants.

## DESCRIPTION OF CAPITAL STOCK

### General

As of the date of this prospectus, Citigroup's authorized capital stock consists of 15 billion shares of common stock and 30 million shares of preferred stock. The following briefly summarizes the material terms of Citigroup's common stock and outstanding preferred stock. You should read the more detailed provisions of Citigroup's certificate of incorporation and the certificate of designation relating to a series of preferred stock for provisions that may be important to you.

### Common Stock

As of December 31, 2005, Citigroup had outstanding approximately 4.98 billion shares of its common stock. Each holder of common stock is entitled to one vote per share for the election of directors and for all other matters to be voted on by Citigroup's stockholders. Except as otherwise provided by law, the holders of shares of common stock vote as one class. Holders of common stock may not cumulate their votes in the election of directors, and are entitled to share equally in the dividends that may be declared by the board of directors, but only after payment of dividends required to be paid on outstanding shares of preferred stock.

Upon voluntary or involuntary liquidation, dissolution or winding up of Citigroup, the holders of the common stock share ratably in the assets remaining after payments to creditors and provision for the preference of any preferred stock. There are no preemptive or other subscription rights, conversion rights or redemption or scheduled installment payment provisions relating to shares of common stock. All of the outstanding shares of common stock are fully paid and nonassessable. The transfer agent and registrar for the common stock is Citibank, N.A. The common stock is listed on the New York Stock Exchange and the Pacific Exchange under the symbol "C."

### Preferred Stock

The general terms of Citigroup's preferred stock are described below under "Description of Preferred Stock."

As of the date of this prospectus, Citigroup had outstanding the following series of preferred stock with the following terms:

| Title of Series | Number of Shares Outstanding | Dividends Per Year | Redemption Price Per Share ($) | Date Next Redeemable by Citigroup | General Voting Rights |
|---|---|---|---|---|---|
| 6.365% Cumulative Preferred Stock, Series F | 1,600,000 | 6.365% | 250 | June 16, 2007 | No |
| 6.213% Cumulative Preferred Stock, Series G | 800,000 | 6.213% | 250 | July 11, 2007 | No |
| 6.231% Cumulative Preferred Stock, Series H | 800,000 | 6.231% | 250 | September 8, 2007 | No |
| 5.864% Cumulative Preferred Stock, Series M | 800,000 | 5.864% | 250 | October 8, 2007 | No |
| Fixed/Adjustable Rate Cumulative Preferred Stock, Series V | 250,000 | Variable Rate(1) | 500 | N/A | No |
| Cumulative Adjustable Rate Preferred Stock, Series Y | 2,262 | Variable Rate(2) | 100,000 | On any payment date | No |
| 5.321% Cumulative Preferred Stock, Series YY | 987 | 5.321% | 1,000,000 | December 22, 2018 | No |
| 6.767% Cumulative Preferred Stock, Series YYY | 2,597 | 6.767% | 1,000,000 | February 27, 2022 | No |

Where the above table indicates that the holders of the preferred stock have no general voting rights, this means that they do not vote on matters submitted to a vote of the common stockholders. However, the holders of this preferred stock do have other special voting rights (1) that are required by law, (2) that apply if there is a default in paying dividends for the equivalent of six calendar quarters, in some cases whether or not consecutive and (3) when Citigroup wants to create any class of stock having a preference as to dividends or distributions of assets over such series or alter or change the provisions of the certificate of incorporation so as to adversely affect the powers, preferences or rights of the holders of such series. These special voting rights apply to all series of preferred stock listed above.

---

(1) The Series V Preferred Stock provides for a cumulative dividend at a rate that changes over time. For each dividend period up to but not including February 15, 2006, the dividend rate will be 5.86% per year. For each dividend period beginning on or after February 15, 2006, the dividend rate will be equal to 0.50% plus the Effective Rate, but not less than 6.00% or more than 12.00%. The dividend rate will be increased in the event of specified changes in the Internal Revenue Code that would decrease the dividends received deduction applicable to corporate stockholders.

(2) The holders of the Series Y Preferred Stock are entitled to a cumulative quarterly dividend at an annual rate equal to the greater of (a) the Short Term Rate and (b) 4.85%. The "Short Term Rate" generally will be equal to either 85% or 78% of the Money Market Yield, as defined in the certificate of incorporation, of the 90-day rate for commercial paper multiplied by the stock's $100,000 per share liquidation value.

**Important Provisions of Citigroup's Certificate of Incorporation and By-Laws**

*Business Combinations.* The certificate of incorporation generally requires the affirmative vote of at least 66⅔% of the votes entitled to be cast by the holders of the then outstanding shares of voting stock, voting together as a single class, to approve any merger or other business combination between Citigroup and any interested stockholder, unless (1) the transaction has been approved by a majority of the continuing directors of Citigroup or (2) minimum price, form of consideration and procedural requirements are satisfied. An "interested stockholder" as defined in the certificate of incorporation generally means a person who owns at least 25% of the voting stock of Citigroup. A "continuing director", as defined in the certificate of incorporation, generally means a director who is not related to an interested stockholder who held that position before an interested stockholder became an interested stockholder.

*Amendments to Certificate of Incorporation and By-Laws.* The affirmative vote of the holders of at least 75% of the voting power of the shares entitled to vote for the election of directors is required to amend the provisions of the certificate of incorporation relating to the issuance of preferred stock or common stock. Amendments of provisions of the certificate of incorporation relating to business combinations generally require a vote of the holders of 66⅔% of the then outstanding shares of voting stock, unless 75% of the board of directors recommend such amendment and the directors comprising such 75% would qualify as continuing directors. The board of directors, at any meeting, may alter or amend the by-laws upon the affirmative vote of at least 66⅔% of the entire board of directors.

*Vacancies.* Vacancies on the board of directors resulting from an increase in the number of directors may be filled by a majority of the board of directors then in office, so long as a quorum is present. Any other vacancies on the board of directors may be filled by a majority of the directors then in office, even if less than a quorum. Any director elected to fill a vacancy that did not result from increasing the size of the board of directors shall hold office for a term coinciding with the predecessor director's remaining term.

## DESCRIPTION OF PREFERRED STOCK

The following briefly summarizes the material terms of Citigroup's preferred stock, other than pricing and related terms disclosed in the accompanying prospectus supplement. You should read the particular terms of any series of preferred stock offered by Citigroup, which will be described in more detail in any prospectus supplement relating to such series, together with the more detailed provisions of Citigroup's restated certificate of incorporation and the certificate of designation relating to each particular series of preferred stock for provisions that may be important to you. The certificate of incorporation, as amended and restated, is

incorporated by reference into the registration statement of which this prospectus forms a part. The certificate of designation relating to the particular series of preferred stock offered by the accompanying prospectus supplement and this prospectus will be filed as an exhibit to a document incorporated by reference in the registration statement. The prospectus supplement will also state whether any of the terms summarized below do not apply to the series of preferred stock being offered. For a description of Citigroup's outstanding preferred stock, see "Description of Capital Stock."

Under Citigroup's certificate of incorporation, the board of directors of Citigroup is authorized to issue shares of preferred stock in one or more series, and to establish from time to time a series of preferred stock with the following terms specified:

- the number of shares to be included in the series;
- the designation, powers, preferences and rights of the shares of the series; and
- the qualifications, limitations or restrictions of such series.

Prior to the issuance of any series of preferred stock, the board of directors of Citigroup will adopt resolutions creating and designating the series as a series of preferred stock and the resolutions will be filed in a certificate of designation as an amendment to the certificate of incorporation. The term "board of directors of Citigroup" includes any duly authorized committee.

The rights of holders of the preferred stock offered may be adversely affected by the rights of holders of any shares of preferred stock that may be issued in the future. The board of directors may cause shares of preferred stock to be issued in public or private transactions for any proper corporate purpose. Examples of proper corporate purposes include issuances to obtain additional financing in connection with acquisitions or otherwise, and issuances to officers, directors and employees of Citigroup and its subsidiaries pursuant to benefit plans or otherwise. Shares of preferred stock issued by Citigroup may have the effect of rendering more difficult or discouraging an acquisition of Citigroup deemed undesirable by the board of directors of Citigroup.

Under existing interpretations of The Board of Governors of the Federal Reserve System, if the holders of the preferred stock become entitled to vote for the election of directors because dividends on the preferred stock are in arrears as described below, preferred stock may then be deemed a "class of voting securities" and a holder of 25% or more of the preferred stock or a holder of 5% or more of the preferred stock that is otherwise a bank holding company may then be regulated as a "bank holding company" with respect to Citigroup in accordance with the Bank Holding Company Act. In addition, at such time:

- any bank holding company or foreign bank with a U.S. presence generally would be required to obtain the approval of the Federal Reserve Board under the BHC Act to acquire or retain 5% or more of the preferred stock; and
- any person other than a bank holding company may be required to obtain the approval of the Federal Reserve Board under the Change in Bank Control Act to acquire or retain 10% or more of the preferred stock.

Before exercising its option to redeem any shares of preferred stock, Citigroup will obtain the approval of the Federal Reserve Board if then required by applicable law.

The preferred stock will be, when issued, fully paid and nonassessable. Holders of preferred stock will not have any preemptive or subscription rights to acquire more stock of Citigroup.

The transfer agent, registrar, dividend disbursing agent and redemption agent for shares of each series of preferred stock will be named in the prospectus supplement relating to such series.

**Rank**

Unless otherwise specified in connection with a particular offering of preferred stock, such shares will rank on an equal basis with each other series of preferred stock and prior to the common stock as to dividends and distributions of assets.

**Dividends**

Holders of each series of preferred stock will be entitled to receive cash dividends when, as and if declared by the board of directors of Citigroup out of funds legally available for dividends. The rates and dates of payment of dividends will be set forth in the prospectus supplement relating to each series of preferred stock. Dividends will be payable to holders of record of preferred stock as they appear on the books of Citigroup or, if applicable, the records of the depositary referred to below under "Description of Depositary Shares," on the record dates fixed by the board of directors. Dividends on a series of preferred stock may be cumulative or noncumulative.

Citigroup may not declare, pay or set apart for payment dividends on the preferred stock unless full dividends on other series of preferred stock that rank on an equal or senior basis have been paid or sufficient funds have been set apart for payment for

- all prior dividend periods of other series of preferred stock that pay dividends on a cumulative basis; or
- the immediately preceding dividend period of other series of preferred stock that pay dividends on a noncumulative basis.

Partial dividends declared on shares of preferred stock and each other series of preferred stock ranking on an equal basis as to dividends will be declared pro rata. A pro rata declaration means that the ratio of dividends declared per share to accrued dividends per share will be the same for each series of preferred stock.

Similarly, Citigroup may not declare, pay or set apart for payment non-stock dividends or make other payments on the common stock or any other stock of Citigroup ranking junior to the preferred stock until full dividends on the preferred stock have been paid or set apart for payment for

- all prior dividend periods if the preferred stock pays dividends on a cumulative basis; or
- the immediately preceding dividend period if the preferred stock pays dividends on a noncumulative basis.

**Conversion and Exchange**

The prospectus supplement for a series of preferred stock will state the terms, if any, on which shares of that series are convertible into or exchangeable for shares of Citigroup's common stock.

**Redemption**

If so specified in the applicable prospectus supplement, a series of preferred stock may be redeemable at any time, in whole or in part, at the option of Citigroup or the holder thereof and may be mandatorily redeemed.

Any partial redemptions of preferred stock will be made in a way that the board of directors decides is equitable.

Unless Citigroup defaults in the payment of the redemption price, dividends will cease to accrue after the redemption date on shares of preferred stock called for redemption and all rights of holders of such shares will terminate except for the right to receive the redemption price.

**Liquidation Preference**

Upon any voluntary or involuntary liquidation, dissolution or winding up of Citigroup, holders of each series of preferred stock will be entitled to receive distributions upon liquidation in the amount set forth in the prospectus supplement relating to such series of preferred stock, plus an amount equal to any accrued and unpaid dividends. Such distributions will be made before any distribution is made on any securities ranking junior relating to liquidation, including common stock.

If the liquidation amounts payable relating to the preferred stock of any series and any other securities ranking on a parity regarding liquidation rights are not paid in full, the holders of the preferred stock of such

series and such other securities will share in any such distribution of available assets of Citigroup on a ratable basis in proportion to the full liquidation preferences. Holders of such series of preferred stock will not be entitled to any other amounts from Citigroup after they have received their full liquidation preference.

### Voting Rights

The holders of shares of preferred stock will have no voting rights, except:

- as otherwise stated in the prospectus supplement;
- as otherwise stated in the certificate of designation establishing such series; and
- as required by applicable law.

## DESCRIPTION OF DEPOSITARY SHARES

The following briefly summarizes the material provisions of the deposit agreement and of the depositary shares and depositary receipts, other than pricing and related terms disclosed in the accompanying prospectus supplement. You should read the particular terms of any depositary shares and any depositary receipts that are offered by Citigroup and any deposit agreement relating to a particular series of preferred stock, which will be described in more detail in a prospectus supplement. The prospectus supplement will also state whether any of the generalized provisions summarized below do not apply to the depositary shares or depositary receipts being offered. A copy of the form of deposit agreement, including the form of depositary receipt, is incorporated by reference as an exhibit in the registration statement of which this prospectus forms a part. You should read the more detailed provisions of the deposit agreement and the form of depositary receipt for provisions that may be important to you.

### General

Citigroup may, at its option, elect to offer fractional shares of preferred stock, rather than full shares of preferred stock. In such event, Citigroup will issue receipts for depositary shares, each of which will represent a fraction of a share of a particular series of preferred stock.

The shares of any series of preferred stock represented by depositary shares will be deposited under a deposit agreement between Citigroup and a bank or trust company selected by Citigroup having its principal office in the United States and having a combined capital and surplus of at least $50,000,000, as preferred stock depositary. Each owner of a depositary share will be entitled to all the rights and preferences of the underlying preferred stock, including dividend, voting, redemption, conversion and liquidation rights, in proportion to the applicable fraction of a share of preferred stock represented by such depositary share.

The depositary shares will be evidenced by depositary receipts issued pursuant to the deposit agreement. Depositary receipts will be distributed to those persons purchasing the fractional shares of preferred stock in accordance with the terms of the applicable prospectus supplement.

### Dividends and Other Distributions

The preferred stock depositary will distribute all cash dividends or other cash distributions received in respect of the deposited preferred stock to the record holders of depositary shares relating to such preferred stock in proportion to the number of such depositary shares owned by such holders.

The preferred stock depositary will distribute any property received by it other than cash to the record holders of depositary shares entitled thereto. If the preferred stock depositary determines that it is not feasible to make such distribution, it may, with the approval of Citigroup, sell such property and distribute the net proceeds from such sale to such holders.

**Redemption of Preferred Stock**

If a series of preferred stock represented by depositary shares is to be redeemed, the depositary shares will be redeemed from the proceeds received by the preferred stock depositary resulting from the redemption, in whole or in part, of such series of preferred stock. The depositary shares will be redeemed by the preferred stock depositary at a price per depositary share equal to the applicable fraction of the redemption price per share payable in respect of the shares of preferred stock so redeemed.

Whenever Citigroup redeems shares of preferred stock held by the preferred stock depositary, the preferred stock depositary will redeem as of the same date the number of depositary shares representing the shares of preferred stock so redeemed. If fewer than all the depositary shares are to be redeemed, the depositary shares to be redeemed will be selected by the preferred stock depositary by lot or ratably or by any other equitable method as the preferred stock depositary may decide.

**Withdrawal of Preferred Stock**

Unless the related depositary shares have previously been called for redemption, any holder of depositary shares may receive the number of whole shares of the related series of preferred stock and any money or other property represented by such depositary receipts after surrendering the depositary receipts at the corporate trust office of the preferred stock depositary. Holders of depositary shares making such withdrawals will be entitled to receive whole shares of preferred stock on the basis set forth in the related prospectus supplement for such series of preferred stock.

However, holders of such whole shares of preferred stock will not be entitled to deposit such preferred stock under the deposit agreement or to receive depositary receipts for such preferred stock after such withdrawal. If the depositary shares surrendered by the holder in connection with such withdrawal exceed the number of depositary shares that represent the number of whole shares of preferred stock to be withdrawn, the preferred stock depositary will deliver to such holder at the same time a new depositary receipt evidencing such excess number of depositary shares.

**Voting Deposited Preferred Stock**

Upon receipt of notice of any meeting at which the holders of any series of deposited preferred stock are entitled to vote, the preferred stock depositary will mail the information contained in such notice of meeting to the record holders of the depositary shares relating to such series of preferred stock. Each record holder of such depositary shares on the record date will be entitled to instruct the preferred stock depositary to vote the amount of the preferred stock represented by such holder's depositary shares. The preferred stock depositary will try to vote the amount of such series of preferred stock represented by such depositary shares in accordance with such instructions.

Citigroup will agree to take all reasonable actions that the preferred stock depositary determines are necessary to enable the preferred stock depositary to vote as instructed. The preferred stock depositary will vote all shares of any series of preferred stock held by it proportionately with instructions received if it does not receive specific instructions from the holders of depositary shares representing such series of preferred stock.

**Amendment and Termination of the Deposit Agreement**

The form of depositary receipt evidencing the depositary shares and any provision of the deposit agreement may at any time be amended by agreement between Citigroup and the preferred stock depositary. However, any amendment that imposes additional charges or materially and adversely alters any substantial existing right of the holders of depositary shares will not be effective unless such amendment has been approved by the holders of at least a majority of the affected depositary shares then outstanding. Every holder of an outstanding depositary receipt at the time any such amendment becomes effective, or any transferee of such holder, shall be deemed, by continuing to hold such depositary receipt, or by reason of the acquisition

thereof, to consent and agree to such amendment and to be bound by the deposit agreement, which has been amended thereby. The deposit agreement automatically terminates if:

- all outstanding depositary shares have been redeemed;
- each share of preferred stock has been converted into or exchanged for common stock; or
- a final distribution in respect of the preferred stock has been made to the holders of depositary shares in connection with any liquidation, dissolution or winding up of Citigroup.

The deposit agreement may be terminated by Citigroup at any time and the preferred stock depositary will give notice of such termination to the record holders of all outstanding depositary receipts not less than 30 days prior to the termination date. In such event, the preferred stock depositary will deliver or make available for delivery to holders of depositary shares, upon surrender of such depositary shares, the number of whole or fractional shares of the related series of preferred stock as are represented by such depositary shares.

**Charges of Preferred Stock Depositary; Taxes and Other Governmental Charges**

No fees, charges and expenses of the preferred stock depositary or any agent of the preferred stock depositary or of any registrar shall be payable by any person other than Citigroup, except for any taxes and other governmental charges and except as provided in the deposit agreement. If the preferred stock depositary incurs fees, charges or expenses for which it is not otherwise liable hereunder at the election of a holder of a depositary receipt or other person, such holder or other person will be liable for such fees, charges and expenses.

**Resignation and Removal of Depositary**

The preferred stock depositary may resign at any time by delivering to Citigroup notice of its intent to do so, and Citigroup may at any time remove the preferred stock depositary, any such resignation or removal to take effect upon the appointment of a successor preferred stock depositary and its acceptance of such appointment. Such successor preferred stock depositary must be appointed within 60 days after delivery of the notice of resignation or removal and must be a bank or trust company having its principal office in the United States and having a combined capital and surplus of at least $50,000,000.

**Miscellaneous**

The preferred stock depositary will forward all reports and communications from Citigroup that are delivered to the preferred stock depositary and that Citigroup is required to furnish to the holders of the deposited preferred stock.

Neither the preferred stock depositary nor Citigroup will be liable if it is prevented or delayed by law or any circumstances beyond its control in performing its obligations under the deposit agreement. The obligations of Citigroup and the preferred stock depositary under the deposit agreement will be limited to performance with honest intentions of their duties thereunder and they will not be obligated to prosecute or defend any legal proceeding in respect of any depositary shares, depositary receipts or shares of preferred stock unless satisfactory indemnity is furnished. Citigroup and the preferred stock depositary may rely upon written advice of counsel or accountants, or upon information provided by holders of depositary receipts or other persons believed to be competent and on documents believed to be genuine.

## DESCRIPTION OF STOCK PURCHASE CONTRACTS AND STOCK PURCHASE UNITS

Citigroup may issue stock purchase contracts, including contracts obligating holders to purchase from or sell to Citigroup, and Citigroup to sell to or purchase from the holders, a specified number of shares of common stock, shares of preferred stock or depositary shares at a future date or dates. The consideration per share of common stock, preferred stock or depositary shares and the number of shares of each may be fixed at the time the stock purchase contracts are issued or may be determined by reference to a specific formula set

forth in the stock purchase contracts. The stock purchase contracts may be issued separately or as part of units, often known as stock purchase units, consisting of a stock purchase contract and any combination of:

- debt securities,
- capital securities issued by trusts, all of whose common securities are owned by Citigroup or by one of its subsidiaries,
- junior subordinated debt securities; or
- debt obligations of third parties, including U.S. Treasury securities,

which may secure the holders' obligations to purchase the common stock, preferred stock or depositary shares under the stock purchase contracts. The stock purchase contracts may require Citigroup to make periodic payments to the holders of the stock purchase units or vice versa, and these payments may be unsecured or prefunded on some basis. The stock purchase contracts may require holders to secure their obligations under those contracts in a specified manner.

The applicable prospectus supplement will describe the terms of the stock purchase contracts and stock purchase units, including, if applicable, collateral or depositary arrangements.

## PLAN OF DISTRIBUTION

Citigroup may offer the offered securities in one or more of the following ways from time to time:

- to or through underwriters or dealers;
- by itself directly;
- through agents; or
- through a combination of any of these methods of sale.

Any such underwriters, dealers or agents may include any broker-dealer subsidiary of Citigroup.

The prospectus supplement relating to an offering of offered securities will set forth the terms of such offering, including:

- the name or names of any underwriters, dealers or agents;
- the purchase price of the offered securities and the proceeds to Citigroup from such sale;
- any underwriting discounts and commissions or agency fees and other items constituting underwriters' or agents' compensation;
- the initial public offering price;
- any discounts or concessions to be allowed or reallowed or paid to dealers; and
- any securities exchanges on which such offered securities may be listed.

Any initial public offering prices, discounts or concessions allowed or reallowed or paid to dealers may be changed from time to time.

In compliance with the guidelines of the National Association of Securities Dealers, Inc., the maximum discount or commission to be received by any NASD member or independent broker-dealer may not exceed 8% of the aggregate amount of the securities offered pursuant to this prospectus and any applicable prospectus supplement; however, it is anticipated that the maximum commission or discount to be received in any particular offering of securities will be significantly less than this amount.

If underwriters are used in an offering of offered securities, such offered securities will be acquired by the underwriters for their own account and may be resold from time to time in one or more transactions, including negotiated transactions, at a fixed public offering price or at varying prices determined at the time of sale. The

securities may be offered either to the public through underwriting syndicates represented by one or more managing underwriters or by one or more underwriters without a syndicate. Unless otherwise specified in connection with a particular offering of securities, the underwriters will not be obligated to purchase offered securities unless specified conditions are satisfied, and if the underwriters do purchase any offered securities, they will purchase all offered securities.

In connection with underwritten offerings of the offered securities and in accordance with applicable law and industry practice, underwriters may over-allot or effect transactions that stabilize, maintain or otherwise affect the market price of the offered securities at levels above those that might otherwise prevail in the open market, including by entering stabilizing bids, effecting syndicate covering transactions or imposing penalty bids, each of which is described below.

- A stabilizing bid means the placing of any bid, or the effecting of any purchase, for the purpose of pegging, fixing or maintaining the price of a security.
- A syndicate covering transaction means the placing of any bid on behalf of the underwriting syndicate or the effecting of any purchase to reduce a short position created in connection with the offering.
- A penalty bid means an arrangement that permits the managing underwriter to reclaim a selling concession from a syndicate member in connection with the offering when offered securities originally sold by the syndicate member are purchased in syndicate covering transactions.

These transactions may be effected on the NYSE, in the over-the-counter market, or otherwise. Underwriters are not required to engage in any of these activities, or to continue such activities if commenced.

If dealers are utilized in the sale of offered securities, Citigroup will sell such offered securities to the dealers as principals. The dealers may then resell such offered securities to the public at varying prices to be determined by such dealers at the time of resale. The names of the dealers and the terms of the transaction will be set forth in the prospectus supplement relating to that transaction.

Offered securities may be sold directly by Citigroup to one or more institutional purchasers, or through agents designated by Citigroup from time to time, at a fixed price or prices, which may be changed, or at varying prices determined at the time of sale. Any agent involved in the offer or sale of the offered securities in respect of which this prospectus is delivered will be named, and any commissions payable by Citigroup to such agent will be set forth, in the prospectus supplement relating to that offering. Unless otherwise specified in connection with a particular offering of securities, any such agent will be acting on a best efforts basis for the period of its appointment.

As one of the means of direct issuance of offered securities, Citigroup may utilize the services of an entity through which it may conduct an electronic "dutch auction" or similar offering of the offered securities among potential purchasers who are eligible to participate in the auction or offering of such offered securities, if so described in the applicable prospectus supplement.

If so indicated in the applicable prospectus supplement, Citigroup will authorize agents, underwriters or dealers to solicit offers from certain types of institutions to purchase offered securities from Citigroup at the public offering price set forth in such prospectus supplement pursuant to delayed delivery contracts providing for payment and delivery on a specified date in the future. Such contracts will be subject only to those conditions set forth in the prospectus supplement and the prospectus supplement will set forth the commission payable for solicitation of such contracts.

The broker-dealer subsidiaries of Citigroup, including Citigroup Global Markets Inc., are members of the NASD and may participate in distributions of the offered securities. Accordingly, offerings of offered securities in which Citigroup's broker-dealer subsidiaries participate will conform with the requirements set forth in Rule 2720 of the Conduct Rules of the NASD.

This prospectus, together with any applicable prospectus supplement, may also be used by any broker-dealer subsidiary of Citigroup in connection with offers and sales of the offered securities in market-making transactions, including block positioning and block trades, at negotiated prices related to prevailing market prices at the time of sale. Any of Citigroup's broker-dealer subsidiaries may act as principal or agent in such transactions. None of Citigroup's broker-dealer subsidiaries have any obligation to make a market in any of

the offered securities and may discontinue any market-making activities at any time without notice, at its sole discretion.

One or more dealers, referred to as "remarketing firms," may also offer or sell the securities, if the prospectus supplement so indicates, in connection with a remarketing arrangement contemplated by the terms of the securities. Remarketing firms will act as principals for their own accounts or as agents. The prospectus supplement will identify any remarketing firm and the terms of its agreement, if any, with Citigroup and will describe the remarketing firm's compensation. Remarketing firms may be deemed to be underwriters in connection with the remarketing of the securities.

Underwriters, dealers and agents may be entitled, under agreements with Citigroup, to indemnification by Citigroup relating to material misstatements and omissions. Underwriters, dealers and agents may be customers of, engage in transactions with, or perform services for, Citigroup and affiliates of Citigroup in the ordinary course of business.

Except for securities issued upon a reopening of a previous series, each series of offered securities will be a new issue of securities and will have no established trading market. Any underwriters to whom offered securities are sold for public offering and sale may make a market in such offered securities, but such underwriters will not be obligated to do so and may discontinue any market making at any time without notice. The offered securities may or may not be listed on a securities exchange. No assurance can be given that there will be a market for the offered securities.

## ERISA CONSIDERATIONS

A fiduciary of a pension, profit-sharing or other employee benefit plan governed by the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), should consider the fiduciary standards of ERISA in the context of the ERISA plan's particular circumstances before authorizing an investment in the offered securities of Citigroup. Among other factors, the fiduciary should consider whether such an investment is in accordance with the documents governing the ERISA plan and whether the investment is appropriate for the ERISA plan in view of its overall investment policy and diversification of its portfolio.

Certain provisions of ERISA and the Internal Revenue Code of 1986, as amended (the "Code"), prohibit employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Title I of ERISA, plans described in Section 4975(e)(1) of the Code (including, without limitation, retirement accounts and Keogh Plans), and entities whose underlying assets include plan assets by reason of a plan's investment in such entities (including, without limitation, as applicable, insurance company general accounts), from engaging in certain transactions involving "plan assets" with parties that are "parties in interest" under ERISA or "disqualified persons" under the Code with respect to the plan or entity. Governmental and other plans that are not subject to ERISA or to the Code may be subject to similar restrictions under state, federal or local law. Any employee benefit plan or other entity, to which such provisions of ERISA, the Code or similar law apply, proposing to acquire the offered securities should consult with its legal counsel.

Citigroup has subsidiaries, including insurance company subsidiaries and broker-dealer subsidiaries, that provide services to many employee benefit plans. Citigroup and any such direct or indirect subsidiary of Citigroup may each be considered a "party in interest" and a "disqualified person" to a large number of plans. A purchase of offered securities of Citigroup by any such plan would be likely to result in a prohibited transaction between the plan and Citigroup.

Accordingly, unless otherwise provided in connection with a particular offering of securities, offered securities may not be purchased, held or disposed of by any plan or any other person investing "plan assets" of any plan that is subject to the prohibited transaction rules of ERISA or Section 4975 of the Code or other similar law, unless one of the following Prohibited Transaction Class Exemptions ("PTCE") issued by the Department of Labor or a similar exemption or exception applies to such purchase, holding and disposition:

- PTCE 96-23 for transactions determined by in-house asset managers,
- PTCE 95-60 for transactions involving insurance company general accounts,
- PTCE 91-38 for transactions involving bank collective investment funds,

- PTCE 90-1 for transactions involving insurance company separate accounts, or
- PTCE 84-14 for transactions determined by independent qualified professional asset managers.

Unless otherwise provided in connection with a particular offering of securities, any purchaser of the offered securities or any interest therein will be deemed to have represented and warranted to Citigroup on each day including the date of its purchase of the offered securities through and including the date of disposition of such offered securities that either:

(a) it is not a plan subject to Title I of ERISA or Section 4975 of the Code and is not purchasing such securities or interest therein on behalf of, or with "plan assets" of, any such plan;

(b) its purchase, holding and disposition of such securities are not and will not be prohibited because they are exempted by one or more of the following prohibited transaction exemptions: PTCE 96-23, 95-60, 91-38, 90-1 or 84-14; or

(c) it is a governmental plan (as defined in section 3 of ERISA) or other plan that is not subject to the provisions of Title I of ERISA or Section 4975 of the Code and its purchase, holding and disposition of such securities are not otherwise prohibited.

Due to the complexity of these rules and the penalties imposed upon persons involved in prohibited transactions, it is important that any person considering the purchase of the offered securities with plan assets consult with its counsel regarding the consequences under ERISA and the Code, or other similar law, of the acquisition and ownership of offered securities and the availability of exemptive relief under the class exemptions listed above.

## LEGAL MATTERS

Michael S. Zuckert, General Counsel, Finance and Capital Markets of Citigroup, 425 Park Avenue, New York, New York 10043 and/or Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York, or counsel to be identified in the applicable prospectus supplement, will act as legal counsel to Citigroup. Mr. Zuckert beneficially owns, or has rights to acquire under Citigroup's employee benefit plans, an aggregate of less than 1% of Citigroup's common stock. Cleary Gottlieb Steen & Hamilton LLP, New York, New York, or other counsel identified in the applicable prospectus supplement, will act as legal counsel to the underwriters. Cleary Gottlieb Steen & Hamilton LLP has from time to time acted as counsel for Citigroup and its subsidiaries and may do so in the future.

## EXPERTS

The consolidated financial statements of Citigroup Inc. as of December 31, 2005 and 2004, and for each of the years in the three-year period ended December 31, 2005, and management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 have been incorporated by reference in reliance upon the reports of KPMG LLP, independent registered public accounting firm, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The report of KPMG LLP on the consolidated financial statements refers to changes, in 2005, in Citigroup's method of accounting for conditional asset retirement obligations associated with operating leases, and in 2003, Citigroup's methods of accounting for variable interest entities and stock-based compensation.

$

# Floating Rate Notes due 20

**PROSPECTUS SUPPLEMENT**

**, 2008**

Citi

**Schedule I**

**Eligibility Requirements for Holders of Existing Subordinate Notes to Participate in this Offer**

If you are tendering Existing Subordinate Notes, you must represent and warrant that you are a holder of Existing Subordinate Notes that satisfies the eligibility requirements set forth in this Schedule (an "Eligible Investor") in order to participate in this Offer. If you are unable to make this representation, please contact the Dealer Manager as set forth on the back cover hereof. The requirements for qualification as an Eligible Investor will vary under the state securities or blue sky laws from state to state. Accordingly, please locate your state of residence as listed below in order to determine whether you will meet the applicable state requirements to qualify as an Eligible Investor. The Letter of Transmittal for this Offer will contain a representation required of all Existing Subordinate Note holders tendering notes in this Offer as to their eligibility (as well as other representations that must be made by holders participating in this Offer, whether they hold Existing Senior Notes or Existing Subordinate Notes).

In addition, holders that are eligible to participate in the Settlement Offer described under "Notice Regarding Settlements" are not eligible to participate in this Offer and are excluded from this Offer, whether they hold Existing Senior Notes or Existing Subordinate Notes.

Distribution of the Statement of which this Schedule forms a part constitutes neither an offer to purchase or exchange Existing Notes nor a solicitation of Consents in any jurisdiction in which, or to or from any person to or from whom, it is unlawful to make such offer or solicitation under applicable state securities or blue sky laws.

* * * * * * * * * *

In the following states there are no specific qualifications applicable and all holders of Existing Subordinate Notes resident in these states may participate in this Offer:

| | | |
|---|---|---|
| Alaska | Mississippi | Puerto Rico |
| Connecticut | Nebraska | Rhode Island |
| Delaware | New Hampshire | Utah |
| Guam | New Jersey | Vermont |
| Hawaii | New Mexico | West Virginia |
| Illinois | New York | Wyoming |
| Massachusetts | | |

* * * * * * * * * *

In the following states you must represent and warrant that you are a bank, savings institution, credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust or other financial institution or institutional buyer, or a dealer:

| | | |
|---|---|---|
| Alabama | Kentucky | North Dakota |
| Arkansas | North Carolina | |

* * * * * * * * * *

In the following states you must represent and warrant that you are an institutional investor, which means (i) a depository institution or international banking institution; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the Securities Exchange Act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of $10,000,000 or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Securities Act of 1974, that is a broker-dealer registered under the

Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the applicable state's securities statute, a depository institution or an insurance company; (vii) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of $10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under the applicable state's securities statute, a depository institution or an insurance company; (viii) a trust, if it has total assets in excess of $10,000,000, its trustee is a depository institution, and its participants are exclusively plans of the types identified in (vi) or (vii) above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $10,000,000**;** (x) a small business investment company licensed by the small business administration under section 301(c) of the Small Business Investment Act of 1958, with total assets in excess of $10,000,000; (xi) a private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940, with total assets in excess of $10,000,000; (xii) a federal covered investment adviser acting for its own account; (xiii) a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(i)(H), adopted under the Securities Act of 1933; (xiv) a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted under the Securities Exchange Act of 1934; or (xv) any other person, other than an individual, of institutional character with total assets in excess of $10,000,000:

| | | |
|---|---|---|
| Idaho | Kansas | South Carolina |
| Indiana | Missouri | South Dakota |
| Iowa | Oklahoma | Vermont |

* * * * * * * * * *

In the following states the qualifications differ slightly on a state-by-state basis. If you are a resident in these states, please review the applicable categories of entities for each state that you must fall within in order to qualify as an Eligible Investor:

| | |
|---|---|
| Arizona: | A bank, savings institution, credit union, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust or other financial institution or institutional buyer or a dealer. |
| California: | A bank, savings and loan association, trust company, insurance company, investment company registered under the Investment Company Act of 1940, pension or profit-sharing trust (other than a self-employed individual retirement plan); an organization described in Section 501(c)(3) of the Internal Revenue Code that has total assets (including endowment, annuity and life income funds) of not less than $5,000,000 according to its most recent audited financial statements; a corporation that has a net worth on a consolidated basis according to its most recent audited financial statements of not less than $14,000,000; a wholly-owned subsidiary of any of the foregoing institutional investors; the Federal government, any agency or instrumentality of the Federal government or corporation wholly-owned by the Federal government; a state, city, county or city and county; an agency or instrumentality of a state, city, county or city and county; a state university or state college; or a retirement system for the benefit of employees of any of the foregoing governmental units or agencies. |

| | |
|---|---|
| Colorado: | A financial or institutional investor which means (i) a depository institution (ii) an insurance company or a separate account of an insurance company; (iii) an investment company registered under the Investment Company Act of 1940; (iv) a business development company as defined under the Investment Company Act of 1940; (v) any private business development company as defined under the Investment Advisers Act of 1940; (vi) an employee pension, profit-sharing or benefit plan if (a) the plan has total assets in excess of $5,000,000, or (b) the plan's investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company; (vii) an entity, but not an individual, a substantial part of whose business activities consist of investing, purchasing, selling or trading in securities of more than one issuer and not of its own issue and that has total assets in excess of $5,000,000 as of the end of its latest fiscal year; (viii) a small business investment company licensed by the Small Business Administration under the Small Business Investment Act of 1958; (ix) any other institutional buyer; or (x) a broker-dealer. |
| District of Columbia: | A financial and institutional investor, which means (i) a depository institution; (ii) an insurance company or a separate account of an insurance company; (iii) an investment company registered under the Investment Company Act of 1940; a (iv) business development company as defined in the Investment Company Act of 1940; (v) an employee pension, profit-sharing or benefit plan, if (a) the plan has total assets in excess of $5,000,000, or (b) its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company; (vi) a "qualified institutional buyer" as defined in Rule 144A adopted under the Securities Act of 1933; (vii) an "accredited investor" as defined in Rule 501(a) adopted under the Securities Act of 1933; (viii) a limited liability company with net assets of at least $500,000; or (ix) a broker-dealer. |
| Florida: | A bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust, "qualified institutional buyer" as defined in Rule 144A(a) adopted under the Securities Act of 1933, or a dealer. |
| Georgia: | A bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust or other financial institution or a dealer. |
| Louisiana: | A bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, real estate investment trust, small business investment corporation, pension or profit-sharing plan or trust or other financial institution or a dealer. |
| Maryland: | A bank, savings and loan association, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, investment adviser with assets under management of not less than $1,000,000, employee benefit plan with assets of not less than $1,000,000, or governmental agency or instrumentality, whether acting for itself or as a trustee or a fiduciary with investment control, or other institutional investor (including (i) any |

institution which is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) adopted under the Securities Act of 1933 and (ii) any "qualified institutional buyer" as defined in Rule 144A, adopted under the Securities Act of 1933), or a broker-dealer.

Michigan: A bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation or the Government National Mortgage Association, pension or profit-sharing trust the assets of which are managed by an institutional manager, the treasurer of Michigan, or other financial institution or broker-dealer.

Minnesota: A financial or institutional investor which means (i) a depository institution or international banking institutions; (ii) an insurance company; (iii) a separate account of an insurance company; (iv) an investment company as defined in the Investment Company Act of 1940; (v) a broker-dealer registered under the Securities Exchange Act of 1934; (vi) an employee pension, profit-sharing, or benefit plan if the plan has total assets in excess of $10,000,000, or its investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Securities Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under this state's securities statute, a depository institution, or an insurance company; (vii) a plan established and maintained by a state, a political subdivision of a state, or an agency or instrumentality of a state or a political subdivision of a state for the benefit of its employees, if the plan has total assets in excess of $10,000,000 or its investment decisions are made by a duly designated public official or by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, that is a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, an investment adviser registered under this state's securities statute, a depository institution, or an insurance company; (viii) a trust, if it has total assets in excess of $10,000,000, its trustee is a depository institution, and its participants are exclusively plans of the types identified in (vi) or (vii) above regardless of the size of their assets, except a trust that includes as participants self-directed individual retirement accounts or similar self-directed plans; (ix) an organization described in section 501(c)(3) of the Internal Revenue Code, corporation, Massachusetts trust or similar business trust, limited liability company, or partnership, not formed for the specific purpose of acquiring the securities offered, with total assets in excess of $10,000,000**;** (x) a small business investment company licensed by the small business administration under section 301(c) of the Small Business Investment Act of 1958, with total assets in excess of $10,000,000; (xi) a private business development company as defined in section 202(a)(22) of the Investment Advisers Act of 1940, with total assets in excess of $10,000,000; (xii) a federal covered investment adviser acting for its own account; (xiii) a "qualified institutional buyer" as defined in Rule 144A(a)(1), other than Rule 144A(a)(1)(i)(H), adopted by the Securities and Exchange Commission under the Securities Act of 1933,(xiv) a "major U.S. institutional investor" as defined in Rule 15a-6(b)(4)(i) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934; (xv) or any other person, other than an individual, of institutional character with total assets in excess of $10,000,000; or (xvi) an "accredited investor" as defined in Rule 501(a) adopted under the Securities Act of 1933.

| | |
|---|---|
| Nevada: | A financial or institutional investor which means (i) a depository institution; (ii) an insurance company or separate account of an insurance company; (iii) an investment company as defined in the Investment Company Act of 1940; (iv) an employee pension, profit-sharing or benefit plan (i) if the plan has total assets in excess of $5,000,000, or (ii) if investment decisions are made by a named fiduciary, as defined in the Employee Retirement Income Security Act of 1974, which is either a broker-dealer registered under the Securities Exchange Act of 1934, an investment adviser registered or exempt from registration under the Investment Advisers Act of 1940, a depository institution or an insurance company; or (v) any other institutional buyer or (vi) a broker-dealer. |
| Ohio: | An institutional investor, defined as any corporation, bank, insurance company, pension fund or trust, employees' profit-sharing fund or trust, an association engaged, as a substantial part of its business or operations, in purchasing or holding securities, a trust in respect of which a bank is a trustee or co-trustee, a "qualified institutional buyer" as defined in Rule 144A adopted under the Securities Act of 1933 or licensed dealer. |
| Oregon: | A bank, savings institution, trust company, insurance company, investment company, pension or profit-sharing trust or other financial institution or institutional buyer (including the Federal National Mortgage Association, the Federal Home Loan Mortgage Corporation, the Federal Housing Administration, the United States Veterans Administration and the Government National Mortgage Association), an institution which is an "accredited investor" within the meaning of Rule 501(a)(1), (2), (3) or (7) adopted under the Securities Act of 1933 if there is no public advertising or general solicitation in connection with the offer and sale of the securities or a broker-dealer, mortgage broker or mortgage banker. |
| Pennsylvania: | A broker-dealer or institutional investor, defined as a bank, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing plan or trust or other financial institution or a person, other than an individual, that controls any of the foregoing; the Federal government, the Commonwealth of Pennsylvania or any agency or political subdivision thereof; any corporation or business trust or any wholly-owned subsidiary of such entity which has been in existence for 18 months and which has tangible net worth on a consolidated basis, as reflected in its most recent audited financial statements, of not less than $10,000,000; any college, university or other public or private institution which has received exempt status under Section 501(c)(3) of the Internal Revenue Code and which has total endowment or trust funds (including annuity and life income funds) of not less than $5,000,000 according to its most recent audited financial statements, provided the aggregate dollar amount of the securities sold to such institution may not exceed five percent of such endowment or trust funds; a person (except an individual or an entity whose securityholders consist entirely of one individual or group of individuals who are related) organized primarily for the purpose of purchasing, in non-public offerings, securities of corporations or issuers engaged in corporate research and development activities and which either (i) purchases $5,000,000 or more of the securities (excluding (a) a purchase of securities of a corporation in which such person owns more than 50% of the corporation's voting securities and (b) any dollar amount of a purchase of the securities which exceeds 20% of such person's net worth), (ii) is capitalized at $2,500,000 or more and is controlled by an individual controlling a person which meets the criteria set forth in (i) above, (iii) is capitalized at $10,000,000 or more and purchases $500,000 or more of the securities (excluding a purchase of securities of a corporation in which such person owns |

more than 50% of the corporation's voting securities) or (iv) is capitalized at $250,000 or more and is a side-by-side fund as defined by regulation under the Pennsylvania Securities Act of 1972; a small business investment company as defined in Section 103 of the Small Business Investment Act of 1958 which either (i) is capitalized at $1,000,000 or more or (ii) is controlled by institutional investors as described above; a seed capital fund as defined in Section 2 and authorized in Section 6 of the Pennsylvania Small Business Incubators Act; a business development credit corporation as authorized by the Pennsylvania Business Development Credit Corporation Law; a person whose securityholders consist solely of institutional investors or a person which the issuer reasonably believes qualifies as an institutional investor on the basis of written representations from the purchaser; or a "qualified institutional buyer" as defined in Rule 144A under the Securities Act of 1933.

Tennessee: A broker-dealer or institutional investor defined as a bank, trust company, insurance company, investment company registered under the Investment Company Act of 1940, a holding company that controls any of the foregoing, a trust or fund over which any of the foregoing has or shares investment discretion, or a person engaged as a substantial part of its business in investing in securities (other than a broker-dealer) in each case having a net worth in excess of $1,000,000.

Texas: A bank, trust company, building and loan association, insurance company, surety or guaranty company, savings institution, federally chartered credit union, savings and loan association, federal savings bank, credit union or savings and loan association chartered under the laws of any state of the United States, investment company as defined in the Investment Company Act of 1940, or small business investment company as defined in the Small Business Investment Act of 1958; an institution which is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) adopted under the Securities Act of 1933, excluding any self-directed employee benefit plan with investment decisions made solely by persons that are "accredited investors" as defined in Rule 501(a)(5)-(6); a "qualified institutional buyer" as defined in Rule 144A(a)(1) adopted under the Securities Act of 1933; a corporation, partnership, trust, estate or other entity (excluding individuals) having net worth of not less than $5,000,000 (according to its most recent annual balance sheet or other financial statement which has been audited by an independent accountant or verified by a principal of the purchaser of the securities) or a wholly-owned subsidiary of such entity, as long as the entity was not formed for the purpose of acquiring the securities; or a registered dealer actually engaged in buying and selling securities as a business.

Virginia: A corporation, investment company or pension or profit-sharing trust or broker-dealer.

Washington: A bank, savings institution, trust company, insurance company, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust (other than an individual retirement account, Keogh account, or other self-directed pension plan) or other financial institution or institutional buyer defined to include a corporation, business trust, or partnership or wholly-owned subsidiary of such an entity, which has been operating for at least 12 months and which has a net worth on a consolidated basis of at least $10,000,000 as determined by the entity's most recent audited financial statements, such statements to be dated within 16 months of the offer and sale of the securities, any entity which has been granted exempt status under Section 501(c)(3) of the Internal Revenue Code of 1986 and which has a total endowment or trust funds of $5,000,000 or more according to its most recent

| | |
|---|---|
| | audited financial statements, such statements to be dated within 16 months of the offer and sale of the securities, or any wholly-owned subsidiary of a bank, savings institution, insurance company, or investment company as defined in the Investment Company Act of 1940) or a broker-dealer. |
| Wisconsin: | A bank, savings institution, credit union, trust company, insurer, investment adviser or savings and loan association, if the purchaser or prospective purchaser is acting for itself or as trustee with investment control, investment company as defined in the Investment Company Act of 1940, pension or profit-sharing trust (including an individual retirement plan) provided the trust or plan is administered by a bank, savings institution, trust company, insurer, broker-dealer, investment adviser or savings and loan association that has investment control, the federal government or any of its agencies or instrumentalities, the State of Wisconsin or any of its agencies or political subdivisions or any other financial institution or institutional investor defined to include an endowment or trust fund of a charitable organization specified in Section 170(b)(1)(A) of the Internal Revenue Code, an issuer that has any class of security registered under Section 12 of the Securities Exchange Act of 1934 (and any wholly-owned subsidiary thereof), a company which is a venture capital company by virtue of the fact that it either (i) operates a small business investment company licensed under the Small Business Investment Act of 1958 or (ii) is a corporation, partnership or association that has been in existence for 5 years or whose net assets exceed $250,000 and whose principal purpose as stated in its articles, by-laws or other organizational instrument is investing in securities or whose primary business is investing in developmental stage companies or eligible small business companies as defined in the regulations of the Small Business Administration, and any “qualified institutional buyer” as defined in Rule 144A adopted under the Securities Act of 1933; or a broker-dealer or an accredited investor as defined in Rule 501(a) adopted under the Securities Act of 1933. |

*The Depositary for the Offer to Purchase and Consent Solicitation is:*

**Global Bondholder Services Corporation**
*By Regular, Registered or Certified Mail, By Overnight Courier or By Hand:*

| | | |
|---|---|---|
| *By Facsimile:*<br>(212) 430-3775<br>(212) 430-3779 | Global Bondholder Services Corporation<br>65 Broadway – Suite 723<br>New York, New York 10006<br>Attn: Corporate Actions | *Confirm by Telephone:*<br>(212) 430-3774 |

Any questions regarding the terms of the Offer to Purchase and the Consent Solicitation may be directed to the Dealer Manager and requests for additional copies of this Statement and the Letter of Transmittal may be directed to the Information Agent at their respective telephone numbers and locations listed below. You may also contact your broker, dealer, commercial bank, trust company or other nominee for assistance concerning the Offer to Purchase and the Consent Solicitation.

*The Information Agent for the Offer to Purchase and the Consent Solicitation is:*

**Global Bondholder Services Corporation**

65 Broadway – Suite 723
New York, New York 10006
Attn: Corporate Actions
Banks and Brokers please call: (212) 430-3774 (collect)
All others please call toll free: (866) 470-3800

*The Dealer Manager and Solicitation Agent for the Offer to Purchase and Consent Solicitation is:*

**Citigroup Global Markets Inc.**

390 Greenwich Street, 4th Floor
New York, New York 10013
Attn: Liability Management Group
(212) 723-6106 (collect)
(800) 558-3745 (toll free)