

NEW ISSUE; FULL BOOK-ENTRY

Ratings: *Moody's: Aaa*
Fitch: AAA
(See "RATINGS" herein)

This Official Statement has been prepared by the State Education Assistance Authority to provide information on the Series G Bonds. Selected information is presented on this cover page for the convenience of the user. To make an informed decision regarding the Series G Bonds, a prospective investor should read this Official Statement in its entirety. Unless indicated, capitalized terms used on this cover page have the meanings given in the Official Statement.

\$200,000,000
STATE OF NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
(A political subdivision of the State of North Carolina)
TAXABLE GUARANTEED STUDENT LOAN REVENUE BONDS,
2000 SERIES G (SENIOR LIEN)
(Bearing interest at a variable rate equal to the three-month LIBOR Rate plus 0.16%)
(Interest for the Initial Period will be determined as described herein)

Dated: Date of Delivery **Price: 100%** **Due: June 1, 2009**

<i>Interest Rate Determination Method</i>	The Series G Bonds will bear interest at the LIBOR Indexed Rate, as described herein.
<i>Interest Payment Dates</i>	Interest shall be payable on June 1, 2000 and thereafter on the first Business Day of each September, December, March and June.
<i>Redemption; Principal Payments</i>	The Series G Bonds are not subject to optional redemption prior to maturity, but are subject to Principal Reduction Payments as described herein.
<i>Security</i>	The bonds offered hereby (the "Series G Bonds") will be special obligations of the State Education Assistance Authority (the "Authority"), the principal of and interest on which is payable only from and secured by Pledged Assets, net of Servicing Fees (as such terms are defined herein). <i>The Series G Bonds do not constitute a debt, liability or obligation of the State of North Carolina or any political subdivision thereof, and neither the faith and credit nor the taxing power of the State of North Carolina or any political subdivision thereof is pledged to the payment of the principal of or interest on the Series G Bonds. The Authority has no taxing power.</i>
<i>Denominations</i>	\$1,000 and integral multiples thereof.
<i>Expected Closing/Settlement</i>	February 3, 2000
<i>Bond Counsel</i>	McNair Law Firm, P.A., Charleston, South Carolina
<i>Underwriters</i>	First Union Securities, Inc.; Banc of America Securities LLC; Wachovia Securities, Inc.
<i>Underwriters' Counsel</i>	Poyner & Spruill L.L.P., Raleigh, North Carolina
<i>Trustee</i>	The Bank of New York, New York, New York
<i>Financial Advisor</i>	William R. Hough & Co., Charleston, South Carolina
<i>Book-Entry System</i>	The Depository Trust Company and its Participants, including CEDEL and Euroclear. See "THE SERIES G BONDS – Book-Entry System" herein.
<i>Tax Treatment</i>	In the opinion of Bond Counsel, interest on the Series G Bonds is not excluded from the gross income of the owners thereof for federal income tax purposes. See "TAX MATTERS" herein.

The Series G Bonds are offered, when, as and if issued and received by the Underwriters, subject to the prior sale and the opinion of Bond Counsel as to the validity and tax status of the Series G Bonds and certain other matters.

FIRST UNION SECURITIES, INC.
BANC OF AMERICA SECURITIES LLC
WACHOVIA SECURITIES, INC.

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No dealer, broker, salesman or other person has been authorized to give any information or to make any representation other than those contained in this Official Statement in connection with the offering described herein, and, if given or made, such other information or representation must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the Series G Bonds offered hereby, nor shall there be any offer or solicitation of such offer or sale of the Series G Bonds in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Official Statement nor the sale of any of the Series G Bonds implies that the information herein is correct as of any date subsequent to the date thereof.

The information contained herein has been obtained from the Authority, College Foundation, Inc. and other sources believed to be reliable. In accordance with their responsibilities under the federal securities laws, the Underwriters have reviewed the information in this Official Statement but do not guarantee its accuracy or completeness. The information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES G BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

TABLE OF CONTENTS

	<i>Page</i>		<i>Page</i>
SUMMARY STATEMENT	iii	DESCRIPTION OF THE FEDERAL FAMILY	
INTRODUCTION	1	EDUCATION LOAN PROGRAM.....	33
THE AUTHORITY	1	General	33
Board of Directors and Officers.....	3	Legislative and Administrative Matters.....	34
Student Loan Insurance Program.....	4	Subsidized Federal Stafford Loans.....	34
Reserve Trust Fund.....	6	Unsubsidized Federal Stafford Loans.....	37
THE FOUNDATION.....	6	Federal PLUS Loan Program	38
Members, Board of Trustees and Officers	7	Federal Consolidation Loan Program.....	39
Servicing of Guaranteed Loans.....	8	Federal Insurance and Reinsurance and	
Other Programs	9	Reimbursement of Loan Holders.....	41
THE AMENDED AND RESTATED CONTRACT.....	9	Federal Insurance and Reinsurance and	
THE FINANCING PROGRAM	10	Reimbursement of Guarantors.....	41
SECURITY AND SOURCES OF PAYMENT FOR		SUMMARY OF GENERAL RESOLUTION	42
THE SERIES G BONDS.....	11	LITIGATION	42
General.....	11	LEGAL MATTERS	42
Senior Lien Account of the Debt Service		TAX MATTERS	42
Reserve Fund	12	RATINGS.....	43
Equity Account	12	UNDERWRITING	43
Additional Bonds.....	12	LEGALITY FOR INVESTMENT	43
Funds and Accounts; Application of Moneys.....	13	CONTINUING DISCLOSURE.....	43
Other Funds and Accounts.....	16	FINANCIAL STATEMENTS.....	45
Amounts in Funds and Accounts under the		FINANCIAL ADVISORY SERVICES	46
General Resolution.....	17	RELATIONSHIPS AMONG PARTIES	46
USES AND APPLICATION OF SERIES G BONDS		MISCELLANEOUS	46
PROCEEDS	17	APPENDIX A Audited Financial Statements of	
THE SERIES G BONDS	17	the Authority	A-1
General.....	17	APPENDIX B Summary of Certain Provisions of	
Interest on the Series G Bonds.....	18	the General Resolution.....	B-1
Book-Entry System.....	19	APPENDIX C Form of Proposed Bond Counsel	
Discontinuation of Book-Entry System	23	Opinion.....	C-1
Principal Reduction Payments and Estimated			
Weighted Average Life	24		
PORTFOLIO OF GUARANTEED LOANS	26		
CERTAIN ASSUMPTIONS AND			
CONSIDERATIONS	29		
Changes in Federal Law	30		
Noncompliance with the Higher Education Act ..	31		
Year 2000 Matters	31		
Repayment Incentives to Borrowers	31		
Prohibited Transactions under ERISA and			
the Code	32		

SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Official Statement. The offering of the Series G Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this Summary Statement from this Official Statement or otherwise use it without this entire Official Statement. All capitalized terms used in this Summary Statement and not otherwise defined herein shall have the meanings given such terms in the General Resolution and the G Series Resolution unless otherwise indicated.

The Authority The State Education Assistance Authority (the “Authority”), a political subdivision of the State of North Carolina (the “State”), was created in 1965 and is authorized to develop and administer programs and perform all functions necessary or convenient to promote and facilitate the making and insuring of student and parental loans and providing such other student and parental loan assistance and services as the Authority deems necessary or desirable for carrying out education assistance and for qualifying for loans, grants, insurance and other benefits and assistance under any program of the United States authorized fostering student and parental loans; purchasing student and parental loan obligations and issuing revenue bonds and notes for such purposes.

The Foundation College Foundation, Inc. (the “Foundation”), a nonprofit corporation, was chartered in 1955 by the Governor of the State and two other citizens of the State under Chapter 55A of the North Carolina General Statutes. The Foundation, since 1966, has served as the central loan originator and servicer for the holders of loans under the North Carolina Federal Family Education Loan Program (“NCFFELP”) and acts for the Authority in administering certain aspects of the NCFFELP.

Financing Program The Series G Bonds will be issued and secured by a pledge of Pledged Assets, net of Servicing Fees, senior and superior to the pledge securing Subordinate Lien Bonds, pursuant to the General Resolution. Additional Senior Lien Bonds and Subordinate Lien Bonds may be issued by the Authority under the General Resolution from time to time without limitation as to amount subject to the terms and conditions set forth in the General Resolution. See “THE FINANCING PROGRAM” herein.

Uses of the Series G Bond Proceeds..... The proceeds of the Series G Bonds will be used and expended to (i) finance Guaranteed Loans previously made from other funds of the Authority advanced on an interim basis, including short-term lines of credit previously established with certain commercial banks; (ii) finance Guaranteed Loans made subsequent to the issuance of the Series G Bonds; (iii) fund the Senior Lien Account of the Debt Service Reserve Fund; and (iv) pay certain Costs of Issuance.

Security and Sources of Payment for the Series G Bonds; Priority of Payment. The Series G Bonds will be special obligations of the Authority, the principal of and interest on which is payable only from and secured by Pledged Assets, net of Servicing Fees. Pledged Assets consist of (i) the

Guaranteed Loans, (ii) interest payments with respect to Guaranteed Loans made by or on behalf of borrowers, (iii) Recoveries of Principal, (iv) any applicable Special Allowance Payments, (v) any applicable Interest Subsidy Payments; (vi) all moneys and securities from time to time held by the Trustee under the terms of the General Resolution (excluding moneys or securities held, or required to be deposited, in the Rebate Fund) and (vii) any and all other real or personal property of every name and nature from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the General Resolution. See Appendix B “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION — Definitions of Terms.”

The Series G Bonds are Senior Lien Bonds and, as such, the pledge of the Pledged Assets, net of Servicing Fees, with respect to the Series G Bonds is and will remain senior and superior to such pledge with respect to any Subordinate Lien Bonds issued from time to time under the General Resolution. Failure to pay any installment of interest or principal when due on any Senior Lien Bond will constitute a default under the General Resolution giving rise to the exercise of certain remedies including the remedy of acceleration of all Bonds, including the Series G Bonds. Under the General Resolution, failure to pay any installment of interest or principal when due on any Subordinate Lien Bond will constitute a default under the General Resolution giving rise to the exercise of certain remedies, but not the remedy of acceleration of any such Subordinate Lien Bonds, which is only available if there is a corresponding failure to make timely payment of interest or principal on Senior Lien Bonds.

In the event that, upon the happening and continuance of any Event of Default, the Funds and Accounts held by the Trustee are insufficient for the payment of principal and interest then due on the Bonds of all Series then Outstanding, such Funds and Accounts and any moneys received or collected pursuant to the Act and the General Resolution will be applied, after the payment of costs and expenses resulting therefrom, to the payment in full of all principal and interest with respect to the Series G Bonds and any other Senior Lien Bonds issued from time to time by the Authority prior to the payment of any principal and interest with respect to any Subordinate Lien Bonds issued from time to time by the Authority.

The Series G Bonds

During the Initial Period (defined below), the Series G Bonds will bear interest at the Initial Rate (defined below). Thereafter, the Series G Bonds will bear interest for any applicable Interest Period (defined below) at a rate equal to the LIBOR Indexed Rate. The LIBOR Indexed Rate will be equal to the LIBOR Rate plus the Spread Factor, but in no event greater than 25%. The LIBOR Rate will be the rate per annum fixed by the British Bankers’ Association at 11:00 a.m., London time, on the Interest Rate Determination Date (defined below) relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a three-month period and as published and reported by Bloomberg

LP by reference to screen page “US0003M<Index>DES” on that service (or such other screen page as may replace such screen page) or, if no longer provided by Bloomberg LP, then to Page 3750 as published or reported by the Telerate Service (or such other screen page as may replace such screen page) or, if no longer provided by Bloomberg LP or the Telerate Service, such rate as shall be ascertained in good faith by the Calculation Agent from such sources as it determines to be comparable to Bloomberg LP and the Telerate Service. The Calculation Agent will determine the LIBOR Indexed Rate not earlier than 10:00 a.m., Eastern time, on each Interest Rate Determination Date. The Bank of New York will serve as the initial Calculation Agent. The Spread Factor will be 0.16%.

The LIBOR Indexed Rate is to be determined on the Interest Rate Determination Date for the applicable Interest Period. The Interest Rate Determination Dates will be the second Business Day prior to the delivery date, and, thereafter, the second Business Day immediately preceding each Interest Rate Adjustment Date (the “Interest Rate Determination Date”). The Interest Rate Adjustment Dates will be the first Business Day of June 2000 and thereafter the first Business Day of each September, December, March and June (the “Interest Rate Adjustment Date”). The Interest Periods will be the Initial Period and thereafter each period commencing on the applicable Interest Rate Adjustment Date and ending on the day before the next Interest Rate Adjustment Date (each such period, an “Interest Period”).

The Initial Period will be the period beginning on the date of delivery of the Series G Bonds and ending on the day before the first Interest Rate Adjustment Date. During the Initial Period the Series G Bonds will bear interest at the Initial Rate. The Initial Rate will be the rate of interest equal to the sum of (i) the rate per annum fixed by the British Bankers’ Association at 11:00 a.m., London time, relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a four-month period and as published or reported by Bloomberg LP by reference to screen page “US0004M<Index>DES on the second Business Day prior to the delivery date and (ii) the Spread Factor, but in no event shall such sum be greater than 25%.

Interest on the Series G Bonds will be payable on each Interest Payment Date, which will be June 1, 2000 and thereafter the first Business Day of September, December, March and June. Interest payable on each Interest Payment Date will be the interest which has accrued from the most recent Interest Payment Date for which interest has been duly paid or provided for (or in the case of the initial Interest Payment Date, from the date of delivery of the Series G Bonds) through and including the day immediately preceding the next Interest Payment Date. Interest will be computed on the basis of the actual number of days in each Interest Period divided by 360.

**Redemption or Other
Payment Prior to Maturity..**

The Series G Bonds are not subject to redemption prior to maturity, but are subject to pro-rata Principal Reduction Payments prior to maturity based upon a Targeted Amortization Schedule adopted by the Authority, as described herein.

Guarantee and Reinsurance

All Guaranteed Loans financed with the proceeds of the Series G Bonds are to be covered by a guarantee of principal and accrued interest by the Authority and reinsured to the maximum extent permitted by law by the Secretary as provided in the Higher Education Act.

Additional Bonds.....

The Authority has heretofore issued under the General Resolution its \$17,350,000 Guaranteed Student Loan Revenue Bonds, 1995 Series A (Subordinate Lien), \$121,900,000 Taxable Guaranteed Student Loan Revenue Bonds, 1995 Series B (Senior Lien), \$25,000,000 Guaranteed Student Loan Revenue Bonds, 1996 Series C (Subordinate Lien), \$105,000,000 Taxable Guaranteed Student Loan Revenue Bonds, 1996 Series D (Senior Lien) (\$74,941,125 of which is currently outstanding), \$30,000,000 Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1997 Series E (Senior Lien) and \$240,000,000 Taxable Guaranteed Student Loan Revenue Bonds, 1998 Series F (Senior Lien). The Series G Bonds are Senior Lien Bonds, secured by the Revenues Available for Debt Service on a parity with the 1995 Series B Bonds (Senior Lien), the 1996 Series D Bonds (Senior Lien), the 1997 Series E Bonds (Senior Lien) and the 1998 Series F Bonds (Senior Lien). Payment of the 1995 Series A Bonds (Subordinate Lien) and 1996 Series C Bonds (Subordinate Lien) is subordinate to the prior payment of the Senior Lien Bonds as described herein.

The General Resolution authorizes the issuance of additional Senior Lien Bonds and Subordinate Lien Bonds under the terms and conditions described herein.

Continuing Disclosure.....

The Authority has undertaken in the G Series Resolution to provide such continuing disclosure as is required by Rule 15c2-12 issued under the Securities Exchange Act of 1934, as amended.

**OFFICIAL STATEMENT
Concerning**

\$200,000,000

**STATE OF NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
(A political subdivision of the State of North Carolina)**

**Taxable Guaranteed Student Loan Revenue Bonds
2000 Series G Bonds (Senior Lien)**

INTRODUCTION

The purpose of this Official Statement, which includes the Summary Statement and Appendices hereto, is to provide certain information in connection with the offering and sale by the State Education Assistance Authority (the "Authority") of \$200,000,000 State Education Assistance Authority Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien) (the "Series G Bonds").

The Series G Bonds are being issued pursuant to the Act (hereinafter defined) and a general resolution (the "General Resolution") and series resolution (the "G Series Resolution") which were adopted by the Authority on September 14, 1995, and January 12, 2000, respectively.

For the definition of terms used herein and a summary of certain provisions of the General Resolution, see Appendix B "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION." Investors should make a full review of the entire Official Statement and the documents summarized or described herein. Capitalized terms used herein and not otherwise defined shall have the same meanings given such terms in the General Resolution and the G Series Resolution unless otherwise indicated.

THE AUTHORITY

The Authority was created under Chapter 1180 of the 1965 Session Laws of North Carolina, as amended, being Sections 116-201 to 116-209.30, inclusive, of the North Carolina General Statutes (the "Act"), and is a political subdivision of the State of North Carolina (the "State") governed by a Board of Directors (the "Board") consisting of seven members appointed by the Governor of the State for four-year terms. The constitutionality of the Act was upheld by the North Carolina Supreme Court in 1970. As required by law, the Board of Governors of The University of North Carolina provides the secretariat for the Authority. All permanent Authority staff are employees of the General Administration of The University of North Carolina. The principal executive officer of the Authority, the Executive Director, is elected by the Board on nomination of the President of The University of North Carolina.

Among other powers authorized under the Act, the Authority may:

(1) develop and administer programs and perform all functions and services necessary or convenient to promote and facilitate the making and insuring of student loans and loans to parents of resident students or students who attend postsecondary institutions in the State and to administer other

programs of student assistance for resident students, students who attend postsecondary institutions in the State or parents of resident students as authorized under Federal and State law;

(2) do all things necessary to qualify for loans, grants, insurance and other benefits under any program of the United States now or hereafter authorized to foster student loans and loans to parents of resident students; and

(3) buy and sell obligations of students who are residents of the State or enrolled in qualified institutions of higher learning or postsecondary business, trade, technical or other vocational schools in the State and buy and sell obligations of parents of such students.

The Act provides for the creation of (i) the State Education Assistance Authority Loan Fund (herein referred to as the "Statutory Loan Fund") into which moneys are deposited for making and purchasing Guaranteed Loans and (ii) a trust fund (herein referred to as the "Reserve Trust Fund") which is used by the Authority to insure such Guaranteed Loans.

In June of 1966, the Authority assumed the function of a guaranty agency as set forth in the United States Higher Education Act of 1965 (as amended to date, the "Higher Education Act"), and has accordingly entered into certain agreements with the United States Secretary of Education (the "Secretary") as described herein under the heading "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM." Pursuant to such agreements, the Authority may guarantee loans held by any institution in the State which qualifies as an "eligible lender" under the Higher Education Act and the regulations promulgated thereunder that have been adopted by the Authority. All such loans guaranteed by the Authority are reinsured by the Secretary as described herein. College Foundation, Inc. (the "Foundation") serves as the central loan originator and servicer for such loans. See "THE FOUNDATION" herein.

The Authority's program for financing Guaranteed Loans is herein referred to as the "Student Loan Finance Program." The term "Guaranteed Loan" is defined in the General Resolution to mean an obligation acquired or to be acquired by the Authority or the Foundation with funds made available pursuant to the General Resolution which represents advances of money made by an Eligible Lender to or on behalf of a student attending or enrolled at an Eligible Institution evidenced by one or more promissory notes, the payment of principal of and interest on which is insured by the Authority and reinsured as to principal amount and interest by the Secretary to the maximum extent then authorized under the Higher Education Act and agreements entered into by the Authority and the Secretary pursuant to the Higher Education Act; or such an obligation for which there is a commitment by the Secretary to so insure or by the Authority and the Secretary to insure and reinsure. Such guarantee and reinsurance arrangements are discussed herein under "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

Board of Directors and Officers

The Board's current members and officers are as follows:

<u>Name</u>	<u>Title</u>	<u>Occupation</u>
Richard B. Roberts	Chairman	Retired Executive Vice President, Wachovia Corporation
F. V. Allison, Jr.	Vice Chairman	Chairman Emeritus, Mutual Community Savings Bank
Arlene M. Ferren	Treasurer	Program Director of Student Services, Pitt County Schools
Nathan F. Simms, Jr.	Member	Retired Vice President for Student Services and Special Programs, The University of North Carolina, General Administration
Lewis W. Ammons, Jr.	Member	Assistant Principal, Madison High School
Conrad Pridgen	Member	Pastor, Bethel AME Church, Greensboro, North Carolina
Margaret H. Farnham	Member	Vice President in the Financial Strategies Group of Bank of America, N.A.
Steven E. Brooks	Secretary	Authority Executive Director (Ex-Officio)

Steven E. Brooks is Executive Director and the principal executive officer of the Authority. He is also Secretary of the Board. He holds the degrees of Bachelor of Arts (1971), Master of Arts (1974) and Doctor of Education (1986) from The University of North Carolina at Chapel Hill. Prior to joining the Authority, he held positions in student financial aid administration at Wake Forest University and Louisburg College in North Carolina. He currently serves as a Trustee of the College Board and is a past Chair of the College Scholarship Service Assembly and Council. He is a member of the North Carolina Association of Student Financial Aid Administrators, having served as its President and having received its Distinguished Service Award, its highest recognition of merit. He has also served on the Board of Directors of the National Association of Student Financial Aid Administrators.

Julia R. Hoke joined the Authority in June 1998 as Assistant Director for Legal Affairs and General Counsel. She also serves as an assistant secretary to the Board. Prior to June 1998, she advised and represented the Authority for over nine years as an assistant attorney general in the North Carolina Department of Justice. Ms. Hoke graduated from The University of North Carolina at Chapel Hill in 1983 with a Bachelor of Arts degree and received her Juris Doctor from Wake Forest University in 1986. She was admitted to the State Bar in August 1986. Her professional activities include memberships in the Legal Affairs Committee of the National Council of Higher Education Loan Programs, the National Association of College & University Attorneys and the American Bankruptcy Institute.

Wayne E. Johnson joined the Authority in April 1999 as Assistant Director for Guaranty Agency Services. He also serves as an assistant secretary to the Board. Prior to joining the Authority, Mr.

Johnson worked for over fourteen years in the admissions and financial aid professions at Wake Forest University, most recently holding the position of Associate Director of Financial Aid at that institution. He graduated from Northwestern University in 1980 with a Bachelor of Arts degree and received his Juris Doctor from Wake Forest University in 1984.

Algie C. Gatewood joined the Authority as Assistant Director for Health, Education and Welfare Programs in 1997. He also serves as an assistant secretary to the Board. He holds a Doctor of Education (1994) from North Carolina State University as well as his Master of Arts (1977) and Bachelor of Arts (1974) from Appalachian State University and Livingstone College, respectively. Prior to joining the Authority, he served in various administrative capacities at Anson Community College, Polkton, North Carolina, for twenty-three years. His professional activities include serving as the community college representative on the State Residence Committee for Tuition Purposes (a Joint Committee of The University of North Carolina and the State Board of Community Colleges), as evaluator for the Robert C. Byrd Honors Scholarship and the North Carolina Teachers Scholarship Loan Programs, as a member of the North Carolina Financial Aid Advisory Committee, and as a vice chairman of the North Carolina Foundation for Advanced Health Programs.

Elizabeth V. McDuffie is the Assistant Director for Education, Training and Outreach of the Authority and an assistant secretary to the Board. She holds a B.S. degree from The University of North Carolina at Chapel Hill, 1980, and an A.A. degree from St. Mary's College, 1978. Prior to Joining the Authority in January of 1998, she worked for fifteen years in the admissions and financial aid professions at St. Mary's College, North Carolina State University, Louisburg College and Meredith College. Immediately prior to her employment with the Authority, she worked for two years with the office of continuing education at Meredith College. Her professional activities include memberships in the North Carolina Association of Student Financial Aid Administrators and the Southern Association of Student Financial Aid Administrators.

Student Loan Insurance Program

On June 1, 1966, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing student loans as the guaranty agency for the State under Section 428(c) of the Higher Education Act. Either the Authority or the Foundation (as the agent of the Authority), as the case may be, processes loans submitted for guarantee, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid and makes appropriate responses to the Secretary. The Authority issues loan guarantees and is also responsible for initiating policy and performing compliance reviews as required by the Higher Education Act with respect to certain schools participating in the Student Loan Insurance Program. As of November 30, 1999, the outstanding principal amount of student loans guaranteed by the Authority, and originated and serviced by the Foundation was \$981,198,564, of which \$302,886,407 was in an in-school status; \$77,065,231 in deferment or post-deferment grace; \$528,808,079 in repayment; \$70,672,182 in forbearance; and \$1,766,665 in claims pending.

Pursuant to the Authority's Student Loan Insurance Program, any eligible holder of a loan guaranteed by the Authority is entitled to reimbursement from the Authority for 98% of any proven loss of principal and interest resulting from a default by a borrower (and 100% of any proven loss with respect to certain other claims) for loans disbursed on or after October 1, 1993. See "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein.

The Authority, as a guarantor under the Higher Education Act, must pay a lender for a defaulted loan prior to submitting a claim to the Secretary for reimbursement. The Authority requests

reimbursement not later than 30 days after claim payment. Reimbursement from the Secretary occurs approximately 45 days from the time that a request is submitted for reimbursement. The Higher Education Act requires that the Authority submit a request for reimbursement by the Secretary within 45 days from the date the claim is paid. Under present practice, after the Secretary reimburses the Authority for a default claim paid on a Guaranteed Loan, the Authority must continue to seek repayment from the borrower. The following are default rates for loans insured by the Authority for the Federal fiscal years ended 1995 through 1999:

Federal Fiscal Year Ended <u>September 30</u>	Default Claims <u>Paid</u> *	<u>Default Rate</u> *
1995	\$ 3,701,468	0.68%
1996	5,920,576	1.09
1997	10,871,168	1.78
1998	18,390,286	2.82
1999	20,734,916	2.92

* “Default Claims Paid” represents the dollar amount of default claims reimbursed to the guaranty agency through reinsurance during the Federal fiscal year ending September 30. This is the dollar amount used by the United States Department of Education to calculate the “Default Rate,” otherwise known as the “trigger figure.” The “trigger figure” indicates loans defaulted during a Federal fiscal year as a percentage of the loans in repayment at the beginning of such fiscal year. An annual “trigger figure” of 5% or less qualifies a guaranty agency for the maximum Federal reinsurance payment.

The following are Authority’s cumulative recovery rates for the Federal fiscal years ended 1995 through 1999:

Federal Fiscal Year Ended <u>September 30</u>	Federal Fiscal <u>Year Recoveries</u> *	Cumulative <u>Recovery Rate</u> *
1995**	\$4,536,064	45.81%
1996**	5,876,053	54.81
1997	5,623,570	54.67
1998	5,665,651	50.66
1999	7,627,303	48.58

* “Federal Fiscal Year Recoveries” represents the dollar amount of principal and interest received from the borrower through in-house collections, collection agents of the guaranty agency or through the Internal Revenue Service tax offset program during the Federal fiscal year. The “Cumulative Recovery Rate” represents the percentage of cumulative collections to cumulative (since inception) defaults for the guaranty agency. The United States Department of Education published “Cumulative Recovery Rate” information on a state-by-state basis for the last time in Federal fiscal year 1990.

** “Cumulative Recovery Rate” data for Federal fiscal years 1995 and 1996 may not reflect all recoveries made under the Internal Revenue Service tax offset program because the Department of Education’s procedure did not require full disclosure to the guaranty agencies of amounts recovered through that program during Federal fiscal years 1995 and 1996.

Reserve Trust Fund

Pursuant to the Act, the Authority has established the Reserve Trust Fund to further secure its loan guarantee obligations. The Reserve Trust Fund is the cash reserve from which the Authority remedies defaults on student or parent loans pending reimbursement from the student loan insurance fund established under Section 431 of the Higher Education Act. Under current law, each guaranty agency is required, for each fiscal year, to maintain a cash reserve level of at least 0.25% of the total attributable amount of all outstanding loans guaranteed by such agency. Such reserve level requirement is subject to reduction by future changes in law or regulations. Such cash reserve is provided by the Authority through the Reserve Trust Fund, an account maintained for the Authority by the State Treasurer.

Sources of funds for the Reserve Trust Fund include all premiums received by the Authority for guaranteeing student or parent loans and all moneys made available to the Authority for the guaranteeing of loans, including Federal funds made available for such purpose. **Moneys in the Reserve Trust Fund are not pledged to the repayment of the Series G Bonds. The liability of the Authority with respect to its guaranteeing of student loans does not constitute a pledge of the faith and credit of the State but is payable solely from the moneys in the Reserve Trust Fund. Funds available in the Reserve Trust Fund are restricted by Federal regulations and the Higher Education Act.** See “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” herein.

THE FOUNDATION

The Foundation, a nonprofit corporation, was chartered in 1955 by the Governor of the State and two other citizens of the State under Chapter 55A of the North Carolina General Statutes for the purpose of assisting State students in defraying their education expenses in attending eligible educational institutions. The charter of the Foundation was amended in 1962 to permit it to administer certain aspects of the North Carolina Bankers’ Student Loan Plan, the forerunner of the North Carolina Federal Family Education Loan Program (“NCFFELP”). See “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” herein.

The Foundation, as agent and independent contractor for the Authority, now serves as the central loan originator and servicer for the NCFFELP. Since its inception and through June 30, 1999, the Foundation has originated more than 755,000 loans to more than 278,000 student and parent borrowers with funds from the Authority, banks in the State and other financial institutions. As of June 30, 1999, the combined net assets (total assets minus total liabilities) of the Foundation’s (i) general operating fund and (ii) property and equipment fund were \$16,571,269. As of November 30, 1999, the principal amount of student loans being serviced by the Foundation was \$981,569,259. Pursuant to an agreement with the Authority entitled “Contract Providing for the Performance of Certain Services and Functions for the State Education Assistance Authority,” dated as of September 1, 1972, as amended and restated effective as of October 1, 1995 and as further amended on April 1, 1997 (the “Amended and Restated Contract”), the Foundation acts for the Authority in administering certain aspects of the NCFFELP. As provided by the Amended and Restated Contract, the Foundation (i) makes, collects and otherwise services insured student or parent loans on behalf of the Authority and (ii) maintains records, accounts and documentation supporting such loans, all in accordance with the Amended and Restated Contract and consistent with Federal and State regulations. As provided for by the Amended and Restated Contract, the Authority reimburses the Foundation for a pro rata share of its operating and reasonable capital costs incurred in the administration of the NCFFELP and for any special services performed on behalf of the State program. See “THE AMENDED AND RESTATED CONTRACT” herein.

The cumulative amount of student loans serviced by the Foundation since Spring of 1988 totals to \$1,847,735,896. The requirements for the servicing of student loans were significantly increased in spring of 1988. Prior to spring of 1988, write-offs due to denied claims were almost nonexistent. As of June 30, 1999, the Foundation, due to denied claims, had written off \$3,061,732 of such total amount of loans. \$1,906,227 of the amount that had been written off by the Foundation was subsequently recovered by the Foundation. Thus, since its inception, the Foundation has had a net loss due to denied claims (write-offs minus recoveries) of \$1,155,505. The ratio of (i) the Foundation's net loss due to denied claims since its inception (\$1,155,505) to (ii) the Foundation's cumulative amount of student loans serviced since Spring of 1988 (\$1,847,735,896) is 0.0625%. With the current student loan servicing computer system, operational in 1994, and based on experience since the installation of the system, the Foundation anticipates that write-offs due to denied claims will be minimal in the future.

Members, Board of Trustees and Officers

The members of the Foundation consist of the Governor of the State, the Chairman of the Board of Governors of The University of North Carolina and the Treasurer of the State. The Foundation's charter specifies that the Board of Trustees of the Foundation shall consist of nine trustees (five bankers and four members of the general public) appointed by the Governor of the State. The present trustees are set forth below:

<u>Name</u>	<u>Title</u>	<u>Occupation</u>
Charles J. Stewart	Chairman	Executive Vice President, Triangle Bank
Robert F. Lowe	Vice Chairman	Chairman and Chief Executive Officer, Lexington State Bank
Stephen G. Ashworth	Treasurer	Senior Vice President, Wachovia Bank, National Association
James O. Frye	Member	President and Chief Executive Officer, The Community Bank
James R. Leavelle, Sr.	Member	Senior Vice President, Bank of America, N.A.
Wiley M. Davis, Sr.	Member	Semi-Retired Vice President for Student Affairs/Special Projects, St. Augustine's College
M.E. Valentine	Member	President, Valentine Properties
Willie A.W. Smith	Member	Retired Public School Teacher; Active Community Service
John B. Turner	Member	Tax Partner, PricewaterhouseCoopers

Gwen P. Davis serves as President and Chief Executive Officer of the Foundation. She is also Secretary of the Board of Trustees and of the Executive Committee. Prior to becoming President in January 1993, Ms. Davis was Senior Vice President and Chief Operating Officer of the Foundation. Ms. Davis joined the staff of the Foundation in January 1971. She attended Mars Hill College and Meredith College where she graduated in 1962 with a major in business and minors in mathematics and economics.

She has completed short courses in college business management and other business subjects, including courses in Duke University's program in management of nonprofit organizations. She is a former officer of the North Carolina Association of Student Financial Aid Administrators, is a former officer and board member of the National Council of Higher Education Loan Programs (NCHELP), was actively involved in the NCHELP Program Operations Committee for eighteen years, is active in the Student Loan Servicing Alliance (SLSA), and is a member of the Board of the National Student Loan Clearinghouse.

James I. Avett, III, Vice President of Operations and Borrower Services, joined the staff of the Foundation in May 1990 following almost two years with the North Carolina Department of Public Instruction's Division of Management Information Systems where he was Information Center Manager. Mr. Avett graduated from North Carolina State University in 1970 with a Bachelor of Science degree in engineering.

Wendy H. McAlister, Vice President of Financial Services and Quality Assurance, serves as Secretary and Treasurer of the Foundation and as Assistant Secretary and Assistant Treasurer of the Board of Trustees. Ms. McAlister graduated from North Carolina State University in 1984 with a baccalaureate degree in accounting. She is a licensed Certified Public Accountant and is a member of the American Institute of Certified Public Accountants and the North Carolina Association of Certified Public Accountants. From January 1985 until January 1993, she worked for the public accounting firm of Koonce, Wooten & Haywood, CPAs in Raleigh, North Carolina. During such period, Ms. McAlister served as the senior in charge of the audits (financial and compliance) for both the Authority and the Foundation. In January 1993, Ms. McAlister joined the Foundation as Vice President for Quality Assurance.

Servicing of Guaranteed Loans

The Foundation provides the personnel necessary to perform all servicing of Guaranteed Loans, which services include, but are not limited to: (i) verifying that all required documents for each Guaranteed Loan have been delivered and that each loan qualifies as a Guaranteed Loan; (ii) maintaining and updating all loan records; (iii) performing due diligence necessary to collect loans according to standards set by the Secretary and the Authority, as applicable; (iv) taking any action necessary to collect delinquent payments; and (v) performing any other functions associated with the servicing of Guaranteed Loans.

As of November 30, 1999, the Foundation had a staff of 129 full-time and 28 part-time (who work hours equivalent to 15 full-time) employees. For collection activities related to delinquent payments, staff work from 8:00 a.m. until 9:00 p.m. Monday through Thursday plus at least two Saturdays per month from 8:00 a.m. until 12:00 p.m.

The Foundation emphasizes the importance of quality in its service to students, colleges, banks, other providers of loan funding and the Authority as both loan guaranty agency and the State agency providing student loan and grant funds. Related to this emphasis on continued enhancement of services provided to its constituents, operational priorities in recent years have included the upgrading of computer hardware and software, especially the installation and full implementation of an externally-written student loan servicing system which was a newly designed system developed for the administration of loans under the Federal Family Education Loan Program. Because of management's emphasis on regulatory compliance and effective accountability, the Foundation's in-house programming staff have developed additional programs to meet these objectives. Through in-house programming, the Foundation has also developed programs to provide participating colleges with support services such as processes for electronic certification of loan applications, disbursement of funds through electronic funds transfer, and

electronic student status confirmations through the National Student Loan Clearinghouse. Through in-house programming, the Foundation has also developed programs to provide services for the Authority, including certain reporting to the United States Department of Education.

The Foundation occupies a 40,000 square foot building located in Raleigh, North Carolina. The building was designed and built in 1987-88 to provide for current operational needs as well as flexibility for future needs of the Foundation. The building includes a modern electronic security system, a sprinkler system and a fireproof vault where loan promissory notes are stored in a well-secured environment. The Foundation owns the three acre lot on which the building is located plus an adjacent two acre lot.

Other Programs

The Foundation also originates and services other loans made under Part B, Title IV, of the Higher Education Act, from funds provided by banks and other financial institutions, educational institutions, and other "special investors," including some of the Foundation's own funds. These funding sources supplement the funds provided by the Authority. The Authority also contracts with the Foundation for the administration of the State Student Incentive Grant Program, which is funded under Part A, Title IV, of the Higher Education Act with Federal funds matched by State funds, and certain other programs. In addition, the Foundation has administered several small, private scholarship and education award programs for private foundations and organizations.

THE AMENDED AND RESTATED CONTRACT

The Amended and Restated Contract sets forth certain functions and services to be provided by the Foundation to the Authority, as well as the compensation to be paid by the Authority to the Foundation for such functions and services, in connection with the Student Loan Insurance Program. Among such functions and services to be provided by the Foundation are:

- (1) the making of Guaranteed Loans from the proceeds of bonds of the Authority and from any other sources available therefor;
- (2) the safekeeping and custody of promissory notes acquired through the making or acquisition of Guaranteed Loans, which promissory notes must remain clearly identifiable and distinguishable from other promissory notes, documents and moneys, contracts, obligations or other legal instruments and held in trust by the Foundation as property of the Authority;
- (3) the maintenance of and access to full and complete records (whether electronic or otherwise) and accounts with respect to Guaranteed Loans;
- (4) the collection and enforcement of payments of principal and interest in respect of Guaranteed Loans; and
- (5) the submission of claims to the Authority for reimbursement of defaulted principal and interest on such Guaranteed Loans against the Reserve Trust Fund.

THE FINANCING PROGRAM

The Series G Bonds will be issued and secured pursuant to the General Resolution. The Authority has heretofore issued under the General Resolution the following guaranteed student loan revenue bonds. The following table lists the bonds by series designation, interest rate determination method and type, tax exemption type, lien position, final maturity, original par amount and outstanding par amount:

<u>Series</u>	<u>Interest Rate Type</u>	<u>Tax Type</u>	<u>Lien Position</u>	<u>Final Maturity</u>	<u>Original Par Amount</u>	<u>Outstanding Par Amount</u>
1995 Series A	Fixed	Tax-Exempt	Subordinate	7/1/2015	\$ 17,350,000	\$ 17,350,000
1995 Series B	Auction	Taxable	Senior	7/1/2015	121,900,000	121,900,000
1996 Series C	Fixed	Tax-Exempt	Subordinate	7/1/2016	25,000,000	25,000,000
1996 Series D-1	Treasury Index	Taxable	Senior	12/1/2003	52,500,000	22,441,125
1996 Series D-2	Treasury Index	Taxable	Senior	12/1/2005	52,500,000	52,500,000
1997 Series E	Auction	Tax-Exempt	Senior	7/1/2027	30,000,000	30,000,000
1998 Series F-1	Auction	Taxable	Senior	7/1/2028	120,000,000	120,000,000
1998 Series F-2	Auction	Taxable	Senior	7/1/2028	120,000,000	120,000,000

Total of Bonds Outstanding prior to the delivery of the Series G Bonds	\$509,191,125
Total of Bonds to be Outstanding after the delivery of the Series G Bonds	\$709,191,125

Additional Senior Lien Bonds and Subordinate Lien Bonds may be issued by the Authority under the General Resolution from time to time without limitation as to amount subject to the terms and conditions set forth in the General Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS — Additional Bonds” herein.

The Senior Lien Bonds listed above are, and the Series G Bonds and any other Senior Lien Bonds issued by the Authority from time to time will also be, secured by a pledge of the Pledged Assets, net of Servicing Fees, with such pledge being and remaining senior and superior to such pledge with respect to the Subordinate Lien Bonds listed above and any other Subordinate Lien Bonds issued by the Authority from time to time.

In January 1998, the Authority arranged a short term line of credit with a consortium of North Carolina commercial banks for the purpose of providing interim financing for the acquisition of education loans. As of December 31, 1999, the principal balance outstanding under this line of credit was \$21,197,096.64. A portion of the proceeds of the Series G Bonds will be used to purchase the education loans that were financed with such line of credit. Concurrently with the purchase of such education loans, the pledge of such education loans to such consortium of banks will be released and such education loans will be pledged to secure the Series G Bonds and will become Guaranteed Loans under the General Resolution. Upon the purchase of such loans, there will be no principal balance outstanding under this line of credit.

Certain moneys held in the North Carolina Student Loan Fund have been made available by the Authority for the purpose of providing interim financing for Guaranteed Loans. The proceeds of the Series G Bonds, exclusive of proceeds utilized to pay Costs of Issuance and to fund the Senior Lien

Account of the Debt Service Reserve Fund, will be used to provide permanent financing for such Guaranteed Loans and to finance additional Guaranteed Loans made subsequent to the issuance of the Series G Bonds.

In connection with the Series G Bonds, the Authority may enter into one or more hedging agreements in order to alleviate the risk to the Authority of fluctuations in the spread between the LIBOR Rate and the rates borne on certain U.S. Treasury securities.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS

General

The Series G Bonds will be special obligations of the Authority, the principal of and interest on which is payable only from and secured by Pledged Assets, net of Servicing Fees.

Pledged Assets consist of (i) the Guaranteed Loans, (ii) interest payments with respect to Guaranteed Loans made by or on behalf of borrowers, (iii) Recoveries of Principal, (iv) any applicable Special Allowance Payments, (v) any applicable Interest Subsidy Payments, (vi) all moneys and securities from time to time held by the Trustee under the terms of the General Resolution (excluding moneys or securities held, or required to be deposited, in the Rebate Fund) and (vii) any and all other real or personal property of every name and nature from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the General Resolution. Recoveries of Principal include all amounts received in respect of payment of principal on Guaranteed Loans held by the Authority, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from the guarantee, or from the sale, assignment or other disposition of a Guaranteed Loan. See Appendix B “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION — Definitions of Terms.”

Special Allowance Payments and Interest Subsidy Payments are certain payments with respect to Guaranteed Loans to be paid to the Authority by the United States government pursuant to the provisions of the Federal Family Education Loan Program. The Higher Education Act has been amended in the past to change the method of determining Special Allowance Payments made by the Secretary. As stated above, such Special Allowance Payments are pledged as security for the Series G Bonds and are payable to the Authority in respect of all Guaranteed Loans which will secure the Series G Bonds.

There can be no assurance that any future law will not prospectively or retroactively affect the terms and conditions under which student loans are made and under which lenders are provided Interest Subsidy Payments or Special Allowance Payments in a manner that might materially and adversely affect the ability of the Authority to pay the principal of and interest on the Series G Bonds when due.

The Series G Bonds are Senior Lien Bonds and, as such, the pledge of the Pledged Assets, net of Servicing Fees, with respect to the Series G Bonds is and will remain senior and superior to such pledge with respect to any Subordinate Lien Bonds issued from time to time under the General Resolution. Failure to pay any installment of interest or principal when due on any Senior Lien Bond will constitute a default under the General Resolution giving rise to the exercise of certain remedies including the remedy of acceleration of all Bonds, including the Series G Bonds. Under the General Resolution, failure to pay any installment of interest or principal when due on

any Subordinate Lien Bond will constitute a default under the General Resolution giving rise to the exercise of certain remedies, but not the remedy of acceleration of any such Subordinate Lien Bonds, which is only available if there is a corresponding failure to make timely payment of interest or principal on Senior Lien Bonds.

As provided in § 116-202 and § 116-209.12 of the North Carolina General Statutes, as amended, the Series G Bonds do not constitute a debt, liability or obligation of the State or any political subdivision thereof and neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of principal or interest on the Series G Bonds. The Authority has no taxing power.

Senior Lien Account of the Debt Service Reserve Fund

In order to further secure the Series G Bonds, as well as other Senior Lien Bonds issued by the Authority from time to time, the General Resolution establishes the Senior Lien Account of the Debt Service Reserve Fund to be funded from the proceeds of the Series G Bonds in an amount equal to the Debt Service Reserve Requirement for the Series G Bonds as established by the G Series Resolution. The G Series Resolution establishes the Debt Service Reserve Requirement for the Series G Bonds as an amount equal to 3% of the principal amount of the Series G Bonds, and in no event shall the amount on deposit in the Debt Service Reserve Fund be less than \$500,000 with respect to all Bonds Outstanding under the General Resolution. Moneys in the Senior Lien Account of the Debt Service Reserve Fund will be applied to pay principal of or interest on Senior Lien Bonds to the extent that money is not otherwise available therefor. Future Series of Senior Lien Bonds will also be secured by the Senior Lien Account of the Debt Service Reserve Fund. The Debt Service Reserve Requirement designated for a Series of Senior Lien Bonds in the respective Series Resolutions will not be less than (i) 3% of the principal amount of all the Bonds of such Series, if the Bonds bear interest at variable rates of interest, or (ii) 6 months' interest on the Bonds of such Series, if the Bonds bear interest at fixed rates of interest.

Equity Account

As of December 31, 1999, \$4,697,940.29 was on deposit in the Equity Account of the Debt Service Fund. If there are not sufficient moneys on deposit in the Funds and Accounts established by the General Resolution to make the payments required by the General Resolution, including the payment of principal of and interest on Bonds, then moneys in the Equity Account will be applied to make such payments in the manner as set forth by the General Resolution. In the event that the amount on deposit in the Equity Account is insufficient to make all such payments required by the General Resolution, such amount on deposit in the Equity Account will first be used to make payments with respect to Senior Lien Bonds prior to making any payments with respect to Subordinate Lien Bonds. Moneys in the Equity Account may, upon the direction of an Authorized Officer of the Authority, be withdrawn from the Equity Account and paid to the Authority for any lawful use of the Authority if an Authorized Officer delivers to the Trustee written confirmation of the existing ratings by each Rating Agency.

Additional Bonds

The General Resolution provides that the Authority may, if certain conditions set forth in the General Resolution are satisfied, from time to time issue, without limitation as to amount, additional (i) Senior Lien Bonds or (ii) Subordinate Lien Bonds.

Among such conditions to be satisfied prior to the issuance of additional Senior Lien Bonds or Subordinate Lien Bonds, the Authority must deliver:

(1) a Certificate of an Authorized Officer of the Authority establishing that for the current and each future Fiscal Year until all Bonds to be Outstanding after the delivery of the Bonds of such Series have matured, Revenues Available for Debt Service in each such Fiscal Year are anticipated to be fully sufficient to pay when due principal of, premium, if any, and interest on all Bonds Outstanding, as well as Operating Costs for each such Fiscal Year, which Certificate may rely upon data and computations made on behalf of the Authority;

(2) written evidence from each Rating Agency that the issuance of such Bonds will not result in a reduction or withdrawal of the then current rating on any Bonds Outstanding; and

(3) a Certificate of an Authorized Officer of the Authority establishing that, following the issuance of such proposed Series of Bonds (and taking into account the liability created thereby), the ratio of Pledged Assets over total liabilities of the Authority attributable to all like Bonds to be Outstanding following the issuance of such proposed Series will be sufficient to maintain an investment grade rating acceptable to the Authority on both Senior Lien Bonds and Subordinate Lien Bonds from each Rating Agency.

Funds and Accounts; Application of Moneys

The General Resolution establishes several separate Funds and Accounts, certain of which are described below.

Program Fund. The Trustee has established and created within the Program Fund a Cost of Issuance Account and a Loan Account. The Loan Account of the Program Fund contains a Tax Exempt Bond Subaccount and a Taxable Bond Subaccount. Upon the receipt of a written requisition as described in the General Resolution, the Trustee will from time to time permit the withdrawal of moneys credited to the Cost of Issuance Account for the purpose of paying Costs of Issuance relating to each Series of Bonds to the extent that moneys are deposited in the Cost of Issuance Account for any such Series of Bonds as provided for by the Series Resolution relating to any such Series of Bonds.

From the proceeds of each Series of Bonds there will be deposited in the Tax Exempt Bond Subaccount or Taxable Bond Subaccount of the Loan Account such amount as is provided for by the Series Resolution relating to any such Series of Bonds. Upon each such deposit in the Loan Account, the Foundation, as agent of the Authority, will furnish the Trustee with a schedule of dates on which it is estimated by the Foundation that Guaranteed Loans will be financed. Such schedule may be amended from time to time by the Foundation. At the direction of the Authority, the Trustee will invest the moneys in the Loan Account in Investment Obligations so that the maturity date or date of redemption of such Investment Obligations will coincide as nearly as practicable with the times at which moneys are needed to finance Guaranteed Loans.

General Revenue Fund. All moneys received by or on behalf of the Authority or the Foundation as Pledged Assets, net of Servicing Fees deducted by the Foundation as described below, will be deposited promptly to the credit of the General Revenue Fund. In the General Resolution, the Authority authorizes the Foundation to deduct the Foundation's Servicing Fees from the applicable Interest Subsidy Payments and Special Allowance Payments payable quarterly to the Trustee or to bill separately such Servicing Fees to the Trustee.

As of the first day of each calendar month, and not later than the tenth day of such calendar month, unless specifically provided to the contrary in a Series Resolution, the Trustee will withdraw from the General Revenue Fund and, to the extent that there are amounts in the General Revenue Fund

available therefor, deposit to the credit of the following Funds and Accounts the following amounts in the following order of priority:

(1) First, to the Operating Fund, any amount that may be necessary to enable the Authority to pay the Servicing Fees then due to the Foundation and not deducted by the Foundation as described above.

(2) Second, to the Interest Account, an amount such that, if the same amounts are so paid and credited to the Interest Account from the same source on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date, the aggregate of the amounts so paid and credited to the Interest Account, when added to any amount on deposit in the Interest Account on the day of the calculation, would on such Interest Payment Date be equal to the interest on all Outstanding Senior Lien Bonds accrued and unpaid as of such date; provided, however, that in order to ensure that the Interest Account is neither over funded or under funded for all Bonds Outstanding (giving due regard to the different payment intervals for the various Series of Bonds), the Trustee shall, not later than the tenth day of each calendar month, ensure that the amount so transferred to the Interest Account reflects the amount of interest actually accrued in the prior calendar month for each Series of Senior Lien Bonds. In the event that different Interest Payment Dates are established in respect of different Series of Senior Lien Bonds, deposits in the Interest Account will be made in accordance with the foregoing calculation applied separately to each such different Series. In the event that amounts representing capitalized interest have been deposited in the Interest Account from the proceeds of a Series of Senior Lien Bonds in accordance with the General Resolution, such deposit will be deemed to be in lieu of deposits otherwise required to be made into the Interest Account from the General Revenue Fund for the succeeding calendar months in order to provide for the payment of interest on Senior Lien Bonds of such Series, to the extent that such amount representing capitalized interest equals the aggregate of such deposits otherwise required to be made from the General Revenue Fund.

(3) Third, to the Principal Account, whenever a Principal Installment of Senior Lien Bonds is to fall due within one year of the date of transfer, an amount such that, if the same amounts are so paid and credited to the Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next day upon which a Principal Installment is due, the aggregate of the amounts so paid and credited to the Principal Account, when added to any amount on deposit in the Principal Account on the day of the calculation, would on such Principal Installment Date be equal to the amount of all accrued and unpaid Principal Installments as of such date. In the event that different dates (within one year of the date of transfer) on which Principal Installments fall due are established in respect of different Series of Senior Lien Bonds, deposits in the Principal Account will be made in accordance with the foregoing calculation applied separately to each such different Series. There will also be deposited to the Principal Account, whenever Senior Lien Bonds have been duly called for redemption and such redemption is to occur within thirty days, an amount equal to the principal amount of Senior Lien Bonds to be redeemed on such redemption date.

(4) Fourth, to the Interest Account, an amount such that, if the same amounts are so paid and credited to the Interest Account from the same source on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date, the aggregate of the amounts so paid and credited to the Interest Account, when added to any amount on deposit in the Interest Account on the day of the calculation, would on such Interest Payment Date be equal to the interest on all Outstanding Subordinate Lien Bonds accrued and unpaid as of such date. In the event that different Interest Payment Dates are established in respect of different Series of Subordinate Lien Bonds, deposits in the Interest Account will be made in accordance with the foregoing calculation applied separately to each such different Series. In the event that amounts representing capitalized interest have been deposited in the Interest Account from the proceeds of a Series of Subordinate Lien Bonds in accordance with the General Resolution, such

deposit will be deemed to be in lieu of deposits otherwise required to be made into the Interest Account from the General Revenue Fund for the succeeding calendar months in order to provide for the payment of interest on Subordinate Lien Bonds of such Series, to the extent that such amount representing capitalized interest equals the aggregate of such deposits otherwise required to be made from the General Revenue Fund.

(5) Fifth, to the Principal Account, whenever a Principal Installment of Subordinate Lien Bonds is to fall due within one year of the date of transfer, an amount such that, if the same amounts are so paid and credited to the Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next day upon which a Principal Installment is due, the aggregate of the amounts so paid and credited to the Principal Account, when added to any amount on deposit in the Principal Account on the day of the calculation, would on such Principal Installment Date be equal to the amount of all accrued and unpaid Principal Installments as of such date. In the event that different dates (within one year of the date of transfer) on which Principal Installments fall due are established in respect of different Series of Subordinate Lien Bonds, deposits in the Principal Account will be made in accordance with the foregoing calculation applied separately to each such different Series. There will also be deposited to the Principal Account, whenever Subordinate Lien Bonds have been duly called for redemption and such redemption is to occur within thirty days, an amount equal to the principal amount of Subordinate Lien Bonds to be redeemed on such redemption date.

(6) Sixth, to the Senior Lien Account of the Debt Service Reserve Fund, so much as may be required so that the amount therein will equal the Debt Service Reserve Requirement for all Senior Lien Bonds then Outstanding.

(7) Seventh, to the Subordinate Lien Account of the Debt Service Reserve Fund, so much as may be required so that the amount therein will equal the Debt Service Reserve Requirement for all Subordinate Lien Bonds then Outstanding.

(8) Eighth, to the Operating Fund, an amount that, when added to the amount therein will equal the Operating Fund Requirement.

(9) Ninth, to the Revenue Reconciliation Fund, the balance, if any. Moneys will remain in the Revenue Reconciliation Fund unless the Authority advises the Trustee, prior to the first day of each month, to make one of the following transfers:

(a) subject to the written confirmation of existing ratings by each Rating Agency, to the Loan Account in order to make or acquire Guaranteed Loans; provided that moneys so transferred must be used within six months for such purpose or to effect an extraordinary redemption of Bonds;

(b) to the Principal Account in order to redeem Bonds or make Principal Reduction Payments; provided that all such payments shall be made ratably, by categories of Bonds sharing the same lien priority and among the payments then scheduled by the respective Series Resolutions;

(c) to the General Revenue Fund if the amounts therein are insufficient in order to make certain deposits required by the General Resolution; provided that, in the case of the deposits to the Interest Account, the moneys on deposit in the Equity Account will first be utilized in order to fund any deficiency in the Interest Account prior to any moneys being used for such purpose pursuant to this provision; or

(d) subject to the written confirmation of existing ratings by each Rating Agency, to the Authority.

Funds deposited to the Revenue Reconciliation Fund shall be used for the purpose set forth in subparagraph (c) first. If after all transfers required by subparagraph (c) have been made, funds remain on deposit in the Revenue Reconciliation Fund, such funds shall then be transferred to the Principal Account as provided in subparagraph (b) as needed to pay principal of Bonds (whether pursuant to cumulative sinking fund redemption, Principal Reduction Payments or otherwise) that is subject to mandatory payment to the extent that amounts are available therefor from funds deposited to the Revenue Reconciliation Fund.

Moneys that have been on deposit in the Revenue Reconciliation Fund for six months and not otherwise transferred as provided in subparagraphs (a) through (d) above shall be transferred, in increments of \$100,000 to the Principal Account in order to redeem Bonds then subject to redemption from such source.

Other Funds and Accounts

The General Resolution also establishes the (i) Debt Service Reserve Fund, which contains a Senior Lien Account and a Subordinate Lien Account, (ii) Debt Service Fund, which contains an Interest Account, a Principal Account and an Equity Account, (iii) Operating Fund and (iv) Rebate Fund.

Debt Service Reserve Fund. If, on any date that principal of or interest on Senior Lien Bonds is due and payable there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys in the Senior Lien Account of the Debt Service Reserve Fund will be applied to pay the principal of and interest on Senior Lien Bonds then due and payable. If, on any date that principal of or interest on Subordinate Lien Bonds is due and payable there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys in the Subordinate Lien Account of the Debt Service Reserve Fund will be applied to pay the principal of and interest on Subordinate Lien Bonds then due and payable. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS — Senior Lien Account of the Debt Service Reserve Fund.”

Debt Service Fund. The Debt Service Fund contains the (i) Interest Account, (ii) Principal Account and (iii) Equity Account. Moneys in the Interest Account will be applied to pay interest on Bonds. Moneys in the Principal Account will be applied to pay principal of Bonds, whether upon maturity, redemption or otherwise. If there are not sufficient monies on deposit in the Funds and Accounts established by the General Resolution to make the payments required by the General Resolution, including the payment of principal of and interest on Bonds, then monies in the Equity Account will be applied to make such payments in the manner as set forth by the General Resolution. See “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS — Equity Account.”

Operating Fund. Moneys in the Operating Fund will be applied to pay Operating Costs of the Authority, including Servicing Fees to the Foundation.

Rebate Fund. Within 90 days after the anniversary date of each Series of Bonds issued under the General Resolution with the intention that the interest thereon be excluded from the gross income of the owners thereof, the Authority will file with the Trustee a report setting forth the “Rebate Amount” and shall deposit in the Rebate Fund any and all Rebate Amounts. Moneys in the Rebate Fund, including investment earnings thereon, if any, are not subject to the pledge of the General Resolution. Amounts in

the Rebate Fund will be applied solely (i) to pay amounts owed to the United States Department of Treasury pursuant to Section 148 of the Internal Revenue Code, as amended (the “Code”) or (ii) to carry out a program of loan forgiveness satisfying the requirements of Section 148 of the Code.

Amounts in Funds and Accounts under the General Resolution

Following the issuance of the Series G Bonds, the sum of (i) the Guaranteed Student Loans held under the General Resolution and (ii) the amounts held in the Funds and Accounts under the General Resolution, other than the Rebate Fund, is expected to exceed 102% of the aggregate principal amount of and accrued interest on all Bonds Outstanding under the General Resolution. In addition, the sum of (i) the Guaranteed Student Loans held under the General Resolution and (ii) the amounts held in the Funds and Accounts under the General Resolution, other than the Rebate Fund and the Subordinate Lien Account of the Debt Service Reserve Fund, is expected to exceed 108% of the aggregate principal amount of and accrued interest on all Senior Lien Bonds outstanding under the General Resolution.

USES AND APPLICATION OF SERIES G BONDS PROCEEDS

The proceeds of the Series G Bonds will be used and expended to (i) finance Guaranteed Loans previously made from other funds of the Authority advanced on an interim basis, including short-term lines of credit previously established with certain commercial banks; (ii) finance Guaranteed Loans made subsequent to the issuance of the Series G Bonds; (iii) fund the Senior Lien Account of the Debt Service Reserve Fund; and (iv) pay certain Costs of Issuance.

The Authority estimates that the proceeds of the sale of the Series G Bonds will be applied as follows:

(a)	Deposit to Loan Account of the Program Fund to finance Guaranteed Loans	\$192,345,000
(b)	Deposit to Senior Lien Account of the Debt Service Reserve Fund	6,000,000
(c)	Costs of Issuance*	<u>1,655,000</u>
TOTAL		<u>\$200,000,000</u>

* Includes underwriters’ discount, legal, financing and rating agency fees, printing costs and other costs of issuance.

THE SERIES G BONDS

General

The Series G Bonds will be dated the date of delivery thereof and will bear interest from such date payable at the times as hereinafter described. The Series G Bonds are issued in Authorized Denominations of \$1,000 and integral multiples thereof. Beneficial ownership of the Series G Bonds must be of Authorized Denominations of the Series G Bonds multiplied by the applicable Ending Balance Factor for the same maturity, or any integral multiple thereof. The Ending Balance Factor is, for any given day, the number calculated by dividing the unpaid principal balance of the Outstanding Series G Bonds (after any Principal Reduction Payments are made) by the original principal balance of the Series G Bonds and rounding the result to nine decimal places. Subject to the provisions described below under “Book-Entry System,” principal of the Series G Bonds will be paid at the principal corporate trust office

of The Bank of New York, as Trustee and Paying Agent, or at the duly designated office of any duly appointed alternate or successor paying agent, in any coin or currency of the United States which at the time of payment is legal tender for the payment of public and private debts. Interest on the Series G Bonds will be paid by check or draft (or other method as described in the General Resolution) on each Interest Payment Date drawn upon any such paying agent and mailed to the registered owners as of the Record Date at their addresses as they appear on the registration books maintained at the principal corporate trust office of The Bank of New York.

All payments of principal of and interest on the Series G Bonds will be paid through the Securities Depository in accordance with its normal procedures, which, as of the date of this Official Statement, provide for payment by the Securities Depository to its Direct Participants as described below under “Book-Entry System.”

Interest on the Series G Bonds

During the Initial Period (defined below), the Series G Bonds will bear interest at the Initial Rate (defined below). Thereafter, the Series G Bonds will bear interest for any applicable Interest Period (defined below) at a rate equal to the LIBOR Indexed Rate. The LIBOR Indexed Rate will be equal to the LIBOR Rate plus the Spread Factor, but in no event greater than 25%. The LIBOR Rate will be the rate per annum fixed by the British Bankers’ Association at 11:00 a.m., London time, on the Interest Rate Determination Date (defined below) relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a three-month period and as published and reported by Bloomberg LP by reference to screen page “US0003M<Index>DES” on that service (or such other screen page as may replace such screen page) or, if no longer provided by Bloomberg LP, then to Page 3750 as published or reported by the Telerate Service (or such other screen page as may replace such screen page) or, if no longer provided by Bloomberg LP or the Telerate Service, such rate as shall be ascertained in good faith by the Calculation Agent from such sources as it determines to be comparable to Bloomberg LP and the Telerate Service. The Calculation Agent will determine the LIBOR Indexed Rate not earlier than 10:00 a.m., Eastern time, on each Interest Rate Determination Date. The Bank of New York will serve as the initial Calculation Agent. The Spread Factor will be 0.16%.

The LIBOR Indexed Rate is to be determined on the Interest Rate Determination Date for the applicable Interest Period. The Interest Rate Determination Dates will be the second Business Day prior to the delivery date, and, thereafter, the second Business Day immediately preceding each Interest Rate Adjustment Date (the “Interest Rate Determination Date”). The Interest Rate Adjustment Dates will be the first Business Day of June 2000 and thereafter the first Business Day of each September, December, March and June (the “Interest Rate Adjustment Date”). The Interest Periods will be the Initial Period and thereafter each period commencing on the applicable Interest Rate Adjustment Date and ending on the day before the next Interest Rate Adjustment Date (each such period, an “Interest Period”).

The Initial Period will be the period beginning on the date of delivery of the Series G Bonds and ending on the day before the first Interest Rate Adjustment Date. During the Initial Period the Series G Bonds will bear interest at the Initial Rate. The Initial Rate will be the rate of interest equal to the sum of (i) the rate per annum fixed by the British Bankers’ Association at 11:00 a.m., London time, relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a four-month period and as published or reported by Bloomberg LP by reference to screen page “US0004M<Index>DES on the second Business Day prior to the delivery date and (ii) the Spread Factor, but in no event shall such sum be greater than 25%.

Interest on the Series G Bonds will be payable on each Interest Payment Date, which will be June 1, 2000 and thereafter the first Business Day of September, December, March and June. Interest payable on each Interest Payment Date will be the interest which has accrued from the most recent Interest Payment Date for which interest has been duly paid or provided for (or in the case of the initial Interest Payment Date, from the date of delivery of the Series G Bonds) through and including the day immediately preceding the next Interest Payment Date. Interest will be computed on the basis of the actual number of days in each Interest Period divided by 360.

Book-Entry System

Beneficial ownership interests in the Series G Bonds will initially be available in book-entry form. Initial purchasers of beneficial ownership interests in the Series G Bonds will not receive certificates representing their interests in the Series G Bonds purchased and will not be considered Holders under the General Resolution, except as described below.

The information which follows in this section “Book-Entry System” regarding DTC is based solely on information provided by DTC. The information regarding Cedel International, Cedelbank and Euroclear is from sources believed to be reliable. No representation is made as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

The Depository Trust Company (“DTC”), New York, New York, will act as Securities Depository for the Series G Bonds. Upon the issuance of the Series G Bonds, one fully-registered bond certificate with respect to each maturity of the Series G Bonds will be registered in the name of Cede & Co., as nominee for DTC, each in the aggregate principal amount of such maturity. **SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE HOLDERS OF THE SERIES G BONDS OR REGISTERED OWNERS OF THE SERIES G BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE SERIES G BONDS.**

DTC. DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its direct participants (“Direct Participants”) deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants’ accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). The Rules applicable to DTC and its Direct and Indirect Participants are on file with the Securities and Exchange Commission.

Cedel International and Cedelbank. Cedel International, the European international clearing depository founded in 1970, is the parent company of Cedelbank, Cedel Global Services and a number of other subsidiaries. Cedelbank (“CEDEL”) is incorporated under the laws of Luxembourg as a professional depository and global settlement clearinghouse. CEDEL holds securities for its participating

organizations (“CEDEL Participants”) and facilitates the clearance and settlement of securities transactions between CEDEL Participants through electronic book-entry changes in accounts of CEDEL Participants, thereby eliminating the need for physical movement of certificates. CEDEL currently clears and settles securities transactions in 38 currencies through a network of links and service providers, cash correspondents and depositories covering 33 markets. As a professional depository, CEDEL is subject to regulation as a bank by the Luxembourg Monetary Institute. Indirect access to CEDEL is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a CEDEL Participant, either directly or indirectly.

On May 14, 1999, Cedel International, the Luxembourg based international securities depository and Deutsche Borse Clearing, the German central securities depository, announced a merger in order to form a new Cedel International. The new Cedel International is also to be registered and headquartered in Luxembourg. The announced merger is subject to shareholder and regulatory approvals and was expected to be formally completed effective January 1, 2000.

Euroclear System. The Euroclear System (“Euroclear”) was founded in December 1968 by the Brussels, Belgium office of Morgan Guaranty Trust Company of New York. In 1972 the Euroclear System was sold to the Euroclear Clearance System Public Limited Company which in turn licensed the System to the Euroclear Clearance System Societe Cooperative (the “Cooperative”), a Belgian cooperative corporation which offers shares to all its participants. Euroclear holds securities for its participants (“Euroclear Participants”) and clears and settles transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Transactions may be settled in any of 27 currencies, including United States dollars. The Euroclear System includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated under contract by the Brussels office of Morgan Guaranty Trust Company of New York (the “Euroclear Operator”). 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 (including 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 is a member bank of the Federal Reserve System. As such, it is regulated and examined by the Board of Governors of the Federal Reserve System and the New York State Banking Department, as well as 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 (collectively, the “Terms and Conditions”). The Terms and Conditions govern transfers of securities and cash within the Euroclear, withdrawals of securities and cash from the 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.

Purchases of Series G Bonds. Purchases of Series G Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series G Bonds on DTC’s records. The ownership interest of each actual purchaser of each Series G Bond (Senior Lien) (“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 purchases, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Series G Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series G Bonds, except in the event that use of the book-entry system for the Series G Bonds is discontinued as described below.

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

DTC may discontinue providing its service as securities depository with respect to the Series G Bonds at any time by giving reasonable notice to the Authority and the Trustee and discharging its responsibilities with respect thereto under applicable law. Under such circumstances, or in the event the Authority desires to use a similar book-entry system with another securities depository, there may be a successor securities depository (all references to DTC include any such successor). The Authority may also decide to discontinue participation in the system of book-entry transfer through DTC at any time by giving reasonable notice to DTC. If the book-entry system is discontinued and there is no successor securities depository, replacement Series G Bonds are required to be printed and delivered to the Beneficial Owners as described in the G Series Resolution. The Beneficial Owners of the Series G Bonds, upon registration of Series G Bonds in the Beneficial Owners' names, will become the registered owners of the Series G Bonds.

The Authority and the Trustee will recognize DTC or DTC's partnership nominee, Cede & Co., while the registered owner, as the Holder of the Series G Bonds for all purposes, including notices and voting. 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 of the Series G Bonds 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. will consent or vote with respect to the Series G Bonds. Under its usual procedures, DTC mails an Omnibus Proxy to the Authority as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co's consenting or voting rights to those Direct Participants to whose accounts the Series G Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

responsibility of DTC and disbursements of such payments to the Beneficial Owners shall be the responsibility of the Direct and Indirect Participants.

Distribution of the Series G Bonds through CEDEL or Euroclear. Distributions with respect to the Series G Bonds held through CEDEL or Euroclear will be credited to the cash accounts of CEDEL Participants or Euroclear Participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its Depository (as defined below). Such distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. CEDEL or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder of the Series G Bonds under the G Series Resolution on behalf of a CEDEL Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depository's ability to effect such actions on its behalf through DTC. Holders of the Series G Bonds may hold their Series G Bonds through DTC (in the United States) or CEDEL or Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The Series G Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. CEDEL and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in CEDEL's and Euroclear's names on the books of their respective depositaries which in turn will hold such positions in customers' securities accounts in the depositaries' names on the books of DTC. Citibank, N.A. acts as depository for CEDEL and Morgan Guaranty Trust Company of New York acts as depository for Euroclear (in such capacities, individually, the "Depository" and, collectively, the "Depositaries").

Transfers of the Series G Bonds between DTC Participants will occur in accordance with DTC Rules. Transfers between CEDEL 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 CEDEL 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 DTC settlement date. Such credits or any transactions in such securities settled during such processing will be reported to the relevant Euroclear or CEDEL Participants on such business day. Cash received in CEDEL or Euroclear as a result of sales of securities by or through a CEDEL Participant or Euroclear Participant to a Participant will be received with value on the DTC settlement date but will be available in the relevant CEDEL or Euroclear cash account only as of the business day following settlement in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through CEDEL Participants 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 its Depository; 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 Depository to take action to effect final settlement on its behalf by delivering or receiving securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. CEDEL Participants and Euroclear Participants may not deliver instructions to the Depositaries.

THE AUTHORITY AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS OF DTC, CEDEL PARTICIPANTS OR EUROCLEAR PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE SERIES G BONDS (I) PAYMENTS OF PRINCIPAL OF OR ON

THE SERIES G BONDS, (II) CONFIRMATIONS OF THEIR OWNERSHIP INTERESTS IN THE SERIES G BONDS OR (III) OTHER NOTICES SENT TO DTC OR CEDE & CO., ITS PARTNERSHIP NOMINEE, AS THE REGISTERED OWNER OF THE SERIES G BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC, DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CEDEL PARTICIPANTS OR EUROCLEAR PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT.

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY SYSTEM HAS BEEN OBTAINED FROM SOURCES THAT THE AUTHORITY BELIEVES TO BE RELIABLE, BUT THE AUTHORITY TAKES NO RESPONSIBILITY FOR THE ACCURACY THEREOF.

NEITHER THE AUTHORITY NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATIONS TO DTC, THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OF DTC, CEDEL PARTICIPANT, EUROCLEAR PARTICIPANT OR THE BENEFICIAL OWNERS WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF DTC, CEDEL PARTICIPANT OR EUROCLEAR PARTICIPANT; (2) THE PAYMENT BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF DTC, CEDEL PARTICIPANT OR EUROCLEAR PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF OR INTEREST ON SERIES G BONDS; (3) THE DELIVERY BY DTC OR ANY DIRECT PARTICIPANT OR INDIRECT PARTICIPANT OF DTC, CEDEL PARTICIPANT OR EUROCLEAR PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THE BOND ORDER OR THE G SERIES RESOLUTION; OR (4) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS OWNER OF THE SERIES G BONDS.

Discontinuation of Book-Entry System

If at any time, DTC notifies the Authority that it is unwilling or unable to continue as Securities Depository with respect to the Series G Bonds or if at any time DTC is no longer registered or in good standing under the Securities Exchange Act and a successor Securities Depository is not approved by the Authority within 90 days after the Authority receives notice or becomes aware of such condition, the book-entry system for the Series G Bonds will be discontinued. In addition, the Authority may discontinue the book-entry system for the Series G Bonds at any time, by giving reasonable notice to DTC (or a successor securities depository).

In the event that the book-entry system for the Series G Bonds is discontinued, the following provisions would apply, subject in each case to further conditions set forth in the General Resolution and the G Series Resolution.

Delivery of Certificates; Registered Owners. Series G Bonds certificates in fully registered form would be delivered to, and registered in the names of, the Direct Participants, or such other persons as such Direct Participants may specify (which may be the Indirect Participants or Beneficial Owners), in authorized denominations. The ownership of the Series G Bonds so delivered (and any Series G Bonds thereafter delivered upon a transfer or exchange described below) would be registered in the registration books to be kept by the Trustee. Except as provided in the General Resolution and the G Series Resolution, the Authority and the Trustee would be entitled to treat the registered owners of such Series G Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the G Series Resolution.

Payment of Series G Bonds. The principal the Series G Bonds would be payable upon surrender thereof at the principal corporate trust office of the Trustee, and interest would be payable by check or draft mailed by the Trustee to the registered owners of the Series G Bonds as shown on the registration books of the Authority maintained at the principal corporate trust office of the Trustee as of the close of business on the regular Record Date for such Interest Payment Date. Upon receipt of a written request by the Trustee, the Trustee would pay interest to any registered owner of Series G Bonds in the aggregate principal amount of \$1,000,000 or more by wire transfer or by such other method as is acceptable to the Trustee and such Series G Bondholder.

Transfers and Exchanges. Series G Bonds would be exchangeable at the principal corporate trust office of the Trustee for a like aggregate principal amount of Series G Bonds of other authorized denominations, and the execution by the Authority of any Series G Bond of any denomination would constitute full and due authorization of such denomination, and the Trustee would thereby be authorized to authenticate and deliver such fully registered Series G Bond. Upon surrender for transfer of any fully registered Series G Bond at the principal corporate trust office of the Trustee, the Authority would execute and the Trustee would authenticate and deliver in the name of the transferee or transferees a new fully registered Series G Bond or Series G Bonds for a like aggregate principal amount.

The Trustee may require the payment by the owner of any Series G Bond of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer.

Principal Reduction Payments and Estimated Weighted Average Life

The Series G Bonds are not subject to optional redemption prior to maturity. Each of the Series G Bonds is subject to prepayment through the application of principal reduction payments, consisting of pro-rata prepayments of principal of each Series G Bond (“Principal Reduction Payments”) based upon the applicable Targeted Amortization Schedule adopted by the Authority and set forth below (“Targeted Amortization Schedule”).

The Series G Bonds shall be subject to Principal Reduction Payments in accordance with the schedule below from amounts deposited to the credit of the Revenue Reconciliation Fund in an amount up to, but not greater than, the amounts set forth in the applicable Targeted Amortization Schedule therefor, (see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS -- Funds and Accounts; Application of Moneys” above for a description of the terms under which funds are to be deposited to the Revenue Reconciliation Fund.) To the extent any Principal Reduction Payment is less than the corresponding payment contemplated by the applicable Targeted Amortization Schedule, such deficiency is added to the next payment contemplated by such Targeted Amortization Schedule as so adjusted. Moneys transferred to the Principal Account from the Revenue Reconciliation Fund to be used to redeem Bonds or make Principal Reduction Payments will be made ratably by categories of Bonds sharing the same lien priority and among the payments then scheduled by the respective Series Resolutions for the Bonds (see “SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS - Funds and Accounts; Application of Moneys” above). In no event will the Principal Reduction Payments exceed the amounts specified in the Targeted Amortization Schedule as so adjusted. The failure by the Authority to make any Principal Reduction Payment in the amount set forth in the Targeted Amortization Schedule because of an insufficiency of moneys in the Revenue Reconciliation Fund on the date for the Principal Reduction Payment shall not constitute an Event of Default with respect to the Series G Bonds.

Targeted Amortization Schedule
Series G Bonds

<u>Date</u>	<u>Principal to be Paid (In Dollars)</u>	<u>Remaining Principal (As % of Original Amount)</u>
12/01/01	\$ 3,786,000	98.1%
03/01/02	4,882,000	95.7
06/01/02	6,176,000	92.6
09/01/02	14,812,000	85.2
12/01/02	15,628,000	77.4
03/01/03	16,022,000	69.3
06/01/03	16,138,000	61.3
09/01/03	16,310,000	53.1
12/01/03	16,808,000	44.7
03/01/04	16,954,000	36.2
06/01/04	16,870,000	27.8
09/01/04	16,678,000	19.5
12/01/04	16,612,000	11.2
03/01/05	16,444,000	2.9
06/01/05	5,880,000	0.0

In addition to the assumptions set forth below under the caption “CERTAIN ASSUMPTIONS AND CONSIDERATIONS,” the Targeted Amortization Schedules set forth above have been prepared based upon the Authority’s projections as to the amounts for each respective period by which Revenues Available for Debt Service attributable to Guaranteed Loans financed with the proceeds of the 1995 Series A Bonds (Subordinate Lien), 1995 Series B Bonds (Senior Lien), 1996 Series C Bonds (Subordinate Lien), 1996 Series D Bonds (Senior Lien), 1997 Series E Bonds (Senior Lien), 1998 Series F Bonds (Senior Lien) and Series G Bonds (collectively, the “Portfolio”) will exceed scheduled interest requirements for such Bonds, scheduled principal requirements for such Bonds and current expenses during the corresponding period.

The speed at which payments are received on Guaranteed Loans may be measured relative to a prepayment standard or model. The base case proforma cash flow model used for purposes of projecting the payments on the Portfolio to derive the foregoing Targeted Amortization Schedules for the Series G Bonds is based upon a constant prepayment rate (“CPR”) of 7%. A 7% CPR has been selected by the Authority as appropriate based upon its historical experience. For purposes of projecting payments on the Portfolio, CPR is assumed to represent principal prepayments and default reimbursements of principal with respect to the Guaranteed Loans comprising the Portfolio.

“Weighted average life” refers to the average amount of time for each maturity of the Series G Bonds that will elapse from the date of issuance thereof until each dollar of principal thereof is scheduled to be repaid in accordance with the Targeted Amortization Schedule. The respective weighted average life of the Series G Bonds will be influenced by the actual payment speed on the Guaranteed Loans in the Portfolio, which impacts the ability of the Authority to make payments in accordance with the applicable Targeted Amortization Schedules. The following table illustrates the effect on weighted average life for the Series G Bonds, respectively, at various CPR assumptions:

	<u>Weighted Average Life (in years) at</u>				
	<u>0% CPR</u>	<u>3% CPR</u>	<u>5% CPR</u>	<u>7% CPR</u>	<u>10% CPR</u>
Series G Bonds	3.9	3.8	3.8	3.8	3.8

In the foregoing table, weighted average life at CPR levels above 7% does not change because the Principal Reduction Payments with respect to the Series G Bonds cannot exceed the amounts specified in the applicable Targeted Amortization Schedule regardless of increased payment speeds.

There can be no assurance (i) that any assumptions used in the base case cash flow model, including CPR assumptions, are correct, (ii) that cash flows as projected based upon such assumptions will, in fact, be realized, or (iii) that, if realized, such cash flows will be sufficient to make Principal Reduction Payments with respect to the Series G Bonds in accordance with the respective Targeted Amortization Schedules or at all. Any variation in actual experience from such assumptions can adversely affect the Authority's ability to meet the payments contemplated by the Targeted Amortization Schedules for the Series G Bonds, and therefore cause the actual weighted average life of the Series G Bonds to extend beyond that projected based upon such assumptions. The failure by the Authority to make any payment contemplated by such Targeted Amortization Schedule on account of an insufficiency of funds therefor shall not constitute an Event of Default with respect to the Series G Bonds.

The Principal Reduction Payments shall apply pro rata to each \$1,000 initial principal amount of the applicable Series G Bonds. To the extent necessary to avoid a principal reduction that results in the payment of Series G Bonds in fractional cents, the Authority may direct the Trustee to reduce any Principal Reduction Payments by up to \$1,000. To the extent of such a reduction, the amount so reduced will be carried forward to the next payment set forth in the Targeted Amortization Schedule.

In the G Series Resolution, the Authority has covenanted for the benefit of the owners of the Series G Bonds that in structuring the principal payments of additional Bonds to be issued under the General Resolution, whether in the form of principal maturities, mandatory or other sinking fund redemptions or principal reduction payments, the Authority will not take any action that would result in a postponement of the Principal Reduction Payments scheduled by the Targeted Amortization Schedule on account of a diversion of Revenues Available for Debt Service to be received from the Portfolio to the retirement of principal of such additional Bonds. In complying with this covenant, the Authority may rely conclusively on the cash flow projections prepared by an investment banking or such other firm knowledgeable in student loan finance in connection with the issuance of such additional Bonds.

The 1996 Series D Bonds (Senior Lien) are also subject to principal reduction payments in accordance with separate targeted amortization schedules. The Authority has heretofore made all the principal reduction payments on the 1996 Series D bonds (Senior Lien) in accordance with the applicable targeted amortization schedules for such bonds. Moneys transferred to the Principal Account from the Revenue Reconciliation Fund to be used to redeem Bonds or make Principal Reduction Payments will be made ratably by categories of Bonds sharing the same lien priority and among the payments then scheduled by the respective Series Resolutions for the Bonds (see "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES G BONDS - Funds and Accounts; Application of Moneys" above).

PORTFOLIO OF GUARANTEED LOANS

The following charts provide summary information as of November 30, 1999, regarding the Portfolio held under the General Resolution, along with new Guaranteed Loans for which disbursement

had been made as of that date and which are anticipated to be financed with the proceeds of the Series G Bonds. \$457,155,067.14 in Guaranteed Loans are currently in the Portfolio. \$103,679,086.89 in new Guaranteed Loans disbursed prior to or on November 30, 1999 and financed with the proceeds of the Series G Bonds will be added to the Portfolio on the date of delivery of the Series G Bonds and are included in the following charts. In addition, approximately \$68 million in new Guaranteed Loans disbursed after November 30, 1999 but prior to or on the date of delivery of the Series G Bonds will be added to the Portfolio on such date of delivery. Finally, approximately \$23 million of the proceeds of the Series G Bonds will be used to make future Guaranteed Loans, which Guaranteed Loans will be added to the Portfolio. The following charts are expected to be generally representative of the loans disbursed as of or to be disbursed after November 30, 1999 that will be added to the Portfolio, with a few exceptions as noted below.

In the G Series Resolution, the Authority has covenanted that, unless it shall have first received a confirmation of existing ratings from the Rating Agencies, it will not use proceeds of the Series G Bonds (a) to make Federal Consolidation Loans (defined below) to the extent that the outstanding principal balance of all Federal Consolidation Loans would exceed 20% of the outstanding principal balance of all Guaranteed Loans under the General Resolution; or (b) to make Guaranteed Loans to or for the benefit of eligible students enrolled in for-profit or proprietary schools to the extent that the outstanding principal balance of all such loans would exceed 5% of the outstanding principal balance of all Guaranteed Loans under the General Resolution.

Composition of the Guaranteed Loans

Current Principal Balance	\$560,834,154.03
Accrued Interest to be Capitalized and Added to Principal	\$6,853,503.06
Number of Borrowers	74,883
Average Current Principal Balance Per Borrower	\$7,489.47
Number of Loans	183,365
Average Current Principal Balance Per Loan	\$3,058.57
Weighted Average Remaining Term to Maturity	134.45 months
Weighted Average Annual Borrower Interest Rate	7.45%

Loan Type Distribution

<u>Loan Type</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>	<u>Percent of Total</u>
Stafford Loans – Subsidized	\$289,160,800.61	51.56%	101,892	55.57%
Stafford Loans – Unsubsidized	203,766,597.24	36.33	71,653	39.08
PLUS Loans	33,276,852.29	5.93	8,484	4.63
Consolidation	<u>34,629,903.89</u>	<u>6.17</u>	<u>1,336</u>	<u>0.73</u>
TOTAL	<u>\$560,834,154.03</u>	<u>100.00%</u>	<u>183,365</u>	<u>100.00%</u>

Current Balance Distribution

Current Balance per Borrower	Current Principal Balance	Percent of Total	Number of Borrowers	Percent of Total
\$0 to \$999	\$ 2,302,206.56	0.41%	3,713	4.96%
\$1,000 to \$1,999	15,954,974.55	2.84	11,060	14.77
\$2,000 to \$2,999	25,119,323.95	4.48	9,952	13.29
\$3,000 to \$3,999	25,906,792.14	4.62	7,425	9.92
\$4,000 to \$4,999	26,513,026.26	4.73	5,953	7.95
\$5,000 to \$5,999	28,978,688.45	5.17	5,312	7.09
\$6,000 to \$6,999	27,524,870.74	4.91	4,273	5.71
\$7,000 to \$7,999	24,902,244.67	4.44	3,317	4.43
\$8,000 to \$8,999	29,652,268.94	5.29	3,488	4.66
\$9,000 to \$9,999	27,168,594.55	4.84	2,874	3.84
\$10,000 to \$10,999	22,501,403.98	4.01	2,145	2.86
\$11,000 to \$11,999	21,574,904.65	3.85	1,880	2.51
\$12,000 to \$12,999	18,679,630.56	3.33	1,496	2.00
\$13,000 to \$13,999	19,953,216.64	3.56	1,478	1.97
\$14,000 to \$14,999	21,583,376.31	3.85	1,493	1.99
\$15,000 to \$15,999	15,958,715.03	2.85	1,031	1.38
\$16,000 to \$16,999	15,680,093.08	2.80	950	1.27
\$17,000 to \$17,999	15,593,211.48	2.78	894	1.19
\$18,000 to \$18,999	13,355,642.55	2.38	724	0.97
\$19,000 to \$19,999	11,751,812.65	2.10	602	0.80
\$20,000 to \$20,999	9,341,433.67	1.67	456	0.61
\$21,000 to \$21,999	8,592,998.39	1.53	400	0.53
\$22,000 to \$22,999	8,412,943.28	1.50	374	0.50
\$23,000 to \$23,999	7,398,597.72	1.32	315	0.42
\$24,000 to \$24,999	7,272,091.26	1.30	297	0.40
\$25,000 to \$25,999	6,628,640.51	1.18	260	0.35
\$26,000 to \$26,999	5,677,998.16	1.01	214	0.29
\$27,000 to \$27,999	8,668,153.37	1.55	316	0.42
\$28,000 to \$28,999	4,697,372.79	0.84	165	0.22
\$29,000 to \$29,999	4,334,807.95	0.77	147	0.20
\$30,000 and above	<u>79,154,119.19</u>	<u>14.11</u>	<u>1,879</u>	<u>2.51</u>
Total	<u>560,834,154.03</u>	<u>100.00%</u>	<u>74,883</u>	<u>100.00%</u>

School Type Distribution

School Type	Current Principal Balance	Percent of Total	Number of Loans	Percent of Total
Four Year, In State	\$445,241,133.42	79.39%	146,475	79.88%
Two Year, In State	47,639,790.06	8.49	24,808	13.53
Out of State (Two and Four Year)	19,970,919.11	3.56	4,061	2.21
For Profit (In and Out of State)	13,352,407.55	2.38	6,685	3.65
Consolidation/Unknown	<u>34,629,903.89</u>	<u>6.17</u>	<u>1,336</u>	<u>0.73</u>
TOTAL	<u>\$560,834,154.03</u>	<u>100.00%</u>	<u>183,365</u>	<u>100.00%</u>

Loan Status Distribution by Loan Type

Status	Subsidized Stafford	Unsubsidized Stafford	PLUS	Consolidation	Current Principal Balance	Percent of Total	Number of Loans	Percent of Total
In-School	\$132,920,963.83	\$98,674,800.18	\$ 0.00	\$ 0.00	\$231,595,764.01	41.29%	87,729	47.84%
Grace	10,740,356.93	7,679,862.37	6,156,684.10	0.00	24,576,903.40	4.38	8,461	4.61
Deferment	16,690,166.22	10,023,969.14	534,758.47	1,596,188.15	28,845,081.98	5.14	9,588	5.23
Forbearance	12,762,426.77	8,150,651.13	1,245,885.71	4,006,759.26	26,165,722.87	4.67	7,186	3.92
Repayment	115,776,528.94	79,034,686.92	25,326,221.74	29,026,956.48	249,164,394.08	44.43	70,249	38.31
Claim	<u>270,357.92</u>	<u>202,627.50</u>	<u>13,302.27</u>	<u>0.00</u>	<u>486,287.69</u>	<u>0.09</u>	<u>152</u>	<u>0.08</u>
Total	<u>\$289,160,800.61</u>	<u>\$203,766,597.24</u>	<u>\$33,276,852.29</u>	<u>\$34,629,903.89</u>	<u>\$560,834,154.03</u>	<u>100.00%</u>	<u>183,365</u>	<u>100.00%</u>

Weighted Average Months Remaining in Status

Status	In-School	Grace/Interim	Repayment	Deferment	Forbearance	Total
In-School	19.05	6.00	120.00	--	--	145.05
Grace/Interim	--	2.35	120.00	--	--	122.35
Repayment	--	--	124.85	--	--	124.85
Deferment	--	--	123.77	15.60	--	139.37
Forbearance	--	--	136.06	--	2.34	138.40

Special Allowance Type Distribution*

Special Allowance Payment (SAP) Rate	Current Principal Balance	Percent of Total	Number of Loans	Percent of Total
T-Bill + 2.2%/2.8%	\$206,017,326.30	36.73%	78,197	42.65%
T-Bill + 2.5%/3.1%	286,910,071.55	51.16	95,348	52.00
T-Bill + 3.1%**	<u>67,906,756.18</u>	<u>12.11</u>	<u>9,820</u>	<u>5.36</u>
TOTAL	<u>\$560,834,154.03</u>	<u>100.00%</u>	<u>183,365</u>	<u>100.00%</u>

*For loans first disbursed on or after January 1, 2000, the Special Allowance Payments will be made as described in "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM" herein.

**Portions of certain Federal Consolidation Loans within this category amounting to \$76,252.76 are not eligible for SAP because of their underlying loan type.

At November 30, 1999, borrowers of approximately 80% of the current principal balance of the Portfolio had North Carolina addresses. In addition, at November 30, 1999 borrowers of less than 5% of the current principal balance of the Portfolio were more than 30 days delinquent in payment.

CERTAIN ASSUMPTIONS AND CONSIDERATIONS

The Authority expects that the Revenues Available for Debt Service to be received pursuant to the General Resolution should be sufficient to pay principal of and interest on the Series G Bonds when due and also to pay the Operating Costs until the maturity or earlier retirement of the Series G Bonds. This expectation is based upon an analysis of cash flow projections using assumptions, which the

Authority believes are reasonable, regarding the timing of the financing of the Guaranteed Loans to be held pursuant to the General Resolution, the composition of and yield on the Portfolio, the rate of return on moneys to be invested in various Funds and Accounts under the General Resolution and the occurrence of future events and conditions. These assumptions are derived from the Authority's experience in the administration of its Student Loan Finance Program. There can be no assurance, however, that interest and principal payments from the Guaranteed Loans will be received as anticipated, that the reinvestment rates assumed on the amounts in various Funds and Accounts will be realized, or that Special Allowance Payments and other payments will be received in the amounts and at the times anticipated. Furthermore, other future events over which the Authority has no control may adversely affect the Authority's actual receipt of Revenues Available for Debt Service pursuant to the General Resolution.

Receipt of principal of and interest on Guaranteed Loans may be accelerated due to various factors, including, without limitation: (i) default claims or other types of claims; (ii) actual principal amortization periods which are shorter than those assumed based upon the current analysis of the Authority's loan portfolio; (iii) the commencement of principal repayment by borrowers on earlier dates than are assumed based upon the current analysis of the Authority's loan portfolio; (iv) economic conditions which induce borrowers to refinance or repay their loans prior to maturity; and (v) changes in Federal law which may affect the timing of the receipt of funds by the Authority. Lenders may make consolidation loans to borrowers for the purpose of retiring certain borrowers' existing loans under various Federal higher education loan programs. To the extent that Guaranteed Loans are repaid with consolidation loans, the Authority will realize repayment of such Guaranteed Loans earlier than projected.

Delay in the receipt of principal of and interest on Guaranteed Loans may adversely affect payment of the principal of and interest on the Series G Bonds when due. Principal of and interest on Guaranteed Loans may be delayed due to numerous factors, including, without limitation: (i) borrowers entering deferment periods due to a return to school or other eligible purposes; (ii) forbearance being granted to borrowers; (iii) Guaranteed Loans becoming delinquent for periods longer than assumed; (iv) actual loan principal amortization periods which are longer than those assumed based upon the current analysis of the Authority's loan portfolio and (v) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the loan portfolio.

If the number of borrowers that utilize the Authority's repayment incentives is greater than assumed in the current analysis of the loan portfolio, the total loan receipts will be less than assumed.

If actual receipt of Revenues Available for Debt Service under the General Resolution or actual expenditures by the Authority under its Student Loan Finance Program vary greatly from those projected, the Authority may be unable to pay the principal of and interest on the Series G Bonds and amounts owing on other obligations when due. In the event that Revenues Available for Debt Service to be received under the General Resolution are insufficient to pay the principal of and interest on the Bonds when due, the General Resolution authorizes and, under certain circumstances requires, the Trustee to declare an Event of Default, accelerate the payment of certain of the Bonds, and sell the Guaranteed Loans. In such circumstances, it is possible, however, that the Trustee would not be able to sell the Guaranteed Loans at prices sufficient to pay the Bonds Outstanding.

Changes in Federal Law

There can be no assurance that relevant Federal laws, including the Higher Education Act, will not be changed in a manner that might adversely affect the availability and flow of funds for the Authority. The Higher Education Act has been frequently changed in the past. Such changes may

materially alter the Federal student loan program in a manner which could, in the future, limit the supply of Guaranteed Loans available for acquisition by the Authority. For example, past changes created a direct lending program pursuant to which the Federal government funds student loans to eligible students through eligible participating post-secondary education institutions. In addition, certain changes (i) made significant changes in interest rates, annual and aggregate borrowing limits, circumstances allowing deferment, Special Allowance Payments and repayment provisions relating to future student loans and (ii) made several changes to administrative and eligibility provisions relating to guaranty agencies and lenders. Changes have been made in the past in order to achieve Federal balanced budget objectives. See “DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” herein.

There can be no assurance that any future law will not prospectively or retroactively affect the terms and conditions under which Guaranteed Loans are made and under which lenders are provided interest subsidy payments or Special Allowance Payments in a manner that might adversely affect the ability of the Authority to pay the principal of and interest on Series G Bonds when due.

Noncompliance with the Higher Education Act

Noncompliance with the Higher Education Act with respect to Guaranteed Loans may adversely affect payment of principal of and interest on the Series G Bonds when due. The Higher Education Act and the applicable regulations thereunder require the lenders making education loans, guarantors guaranteeing education loans and lenders or servicers servicing education loans to follow certain due diligence procedures in an effort to ensure that education loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when an education loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Higher Education Act loans are set forth in the Code of Federal Regulations and other documents of the United States Department of Education, and no attempt has been made in this Official Statement to describe those procedures in their entirety. Failure to follow such procedures may result in the Secretary’s refusal to make reinsurance payments to a guarantor on such loans or may result in the guarantor’s refusal to honor its guarantee on such loans to holders of guaranteed loans, including the Authority. Such action by the Secretary could adversely affect a guarantor’s ability to honor guarantee claims and loss of guarantee payments to the Authority could adversely affect the ability of the Authority to make payment of principal of and interest on the Series G Bonds.

Year 2000 Matters

As of the date of this Official Statement, the Authority and the Foundation experienced insubstantial and immaterial computer problems relating to the recognition by computer programs of the year 2000 (the “Year 2000 Problem”). Although the full impact of the Year 2000 Problem on the Authority, the Foundation, their service providers and the Federal and State governments is not yet known, the Authority and the Foundation do not expect the Year 2000 Problem to have a material impact on their operations or the Authority’s ability to pay principal of and interest on the Series G Bonds.

Repayment Incentives to Borrowers

The Authority has implemented repayment incentives for borrowers of Federal Stafford Loans (hereinafter defined) first disbursed by the Foundation after June 30, 1996. For borrowers who make the regular monthly payments on such loans through automatic withdrawal or payroll deduction, the interest rate on such loans will be reduced by 0.25%.

For Federal Stafford Loans first disbursed after June 30, 1997, borrowers who make 48 consecutive on-time regular payments can choose between receiving a 2% reduction in the interest rate or the forgiveness of the final six scheduled monthly payments. The forgiveness option is available only if borrowers choose this option at the beginning of the repayment period and make the first 48 scheduled monthly payments on time; however, the interest reduction incentive is available to borrowers who make 48 consecutive on-time scheduled monthly payments out of the first 61 monthly payments.

In addition, for loans first disbursed after June 30, 1998, borrowers can receive the following benefits:

- (1) The Authority may credit 3% of the original principal balance to each Unsubsidized Federal Stafford and PLUS Loans in the July or October following the year borrowed; for Subsidized Federal Stafford Loans, the Authority may credit such 3% just as a borrower enters repayment.
- (2) The Authority waives the guaranty fee on Federal Stafford and PLUS Loans.
- (3) For Federal Stafford Loans, interest rates are reduced by ½% after 24 consecutive on-time payments, 1% after the 36th consecutive on-time payment, and 2% after the 48th consecutive on-time payment. Borrowers get a 12 month window to establish the consecutive payment history (24 consecutive out of the 36 months) and an option of forgiveness of their last 6 payments in lieu of the 2% reduction after 48 consecutive on-time payments.
- (4) A student who pays his/her Federal Stafford Loans through automatic debit payments will receive an interest rate reduction of 0.25%.
- (5) The Authority caps the interest rates on Federal Stafford Loans at 7.75%.

For the repayment incentive (1) above, the 3% credit is not funded from moneys pledged to the repayment of the Series G Bonds, but from other funds of the Authority. Upon making the credit, the Authority deposits cash equal to the 3% credit into the General Revenue Fund under the General Resolution.

Although such repayment incentives may accelerate payment of the Guaranteed Loans, the Authority does not expect these repayment incentives to impair its ability to make payments of principal of and interest on the Series G Bonds.

Prohibited Transactions under ERISA and the Code

The Employee Retirement Income Security Act of 1974, as amended (“ERISA”) and/or certain overlapping provisions of the Code apply to certain pension plans, profit-sharing plans, stock bonus plans, annuity plans, individual retirement accounts, individual retirement annuities, welfare benefit plans and medical savings accounts (collectively, “Plans”). ERISA and certain provisions of the Code prohibit and/or tax certain transactions (“prohibited transactions”) directly or indirectly between certain Plans and certain parties-in-interest and disqualified persons, as defined in ERISA and the Code, respectively. Each potential purchaser of Series G Bonds which is, or is acting on behalf of, a Plan should consult its tax and/or legal advisors as to whether the purchase, holding or sale of Series G Bonds is or might constitute a “prohibited transaction” under ERISA or the Code. In addition, each potential purchaser of Series G Bonds which intends or may intend to sell Series G Bonds to a Plan should also consult its tax and/or legal advisors as to whether it is a “party-in-interest” under ERISA or a “disqualified person” under the

Code and whether it may be subject to the civil penalties imposed by Section 502(i) of ERISA, other adverse consequences under ERISA or the taxes imposed by Section 4975(a) and (b) of the Code as a result of such a sale. Subject to the provisions described herein, to each specific Plan's organizational documentation and investment policies and qualifications, and other legal provisions and otherwise, the Series G Bonds may be purchased by Plans.

Neither the Authority nor its respective officers or agents expresses any opinion or makes any representation as to whether any purchase, holding or sale of the Series G Bonds is or is not a prohibited transaction under ERISA or the Code or whether such a purchase, holding or sale would be subject to the civil penalties imposed by Section 502(i) of ERISA, other adverse consequences under ERISA or the taxes imposed by Section 4975(a) or (b) of the Code. Prior to any purchase, holding or sale of the Series G Bonds, potential purchasers and potential sellers of the Series G Bonds should consult their respective tax and/or legal advisors with respect to such matters.

EACH PURCHASER OF A SERIES G BOND OR AN INTEREST IN A SERIES G BOND WILL BE DEEMED TO HAVE REPRESENTED THAT SUCH PURCHASE IS NOT A PROHIBITED TRANSACTION UNDER ERISA OR THE OVERLAPPING PROVISIONS OF THE CODE AND THAT SUCH SERIES G BOND OR SUCH INTEREST IN A SERIES G BOND IS AN ELIGIBLE INVESTMENT FOR THE PLAN.

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

General

The Higher Education Act, in Part B of Title IV, provides for a program of (i) direct Federal insurance of student loans and (ii) reinsurance of student loans guaranteed or insured by a state agency or private non-profit corporation (collectively, "Federal Family Education Loans" and the "Federal Family Education Loan Program"). Several types of loans are currently authorized as Federal Family Education Loans pursuant to this program. These include: (i) loans with respect to which the Federal government makes interest payments available to reduce student interest cost ("Subsidized Federal Stafford Loans"); (ii) loans to students with respect to which the Federal government does not make such interest payments ("Unsubsidized Federal Stafford Loans") (Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans are herein collectively referred to as "Federal Stafford Loans"); (iii) loans to parents of dependent students ("Federal PLUS Loans"); and (iv) loans to fund payment and consolidation of Federal Stafford Loans and certain other types of higher education obligations ("Federal Consolidation Loans"). Supplemental loans to graduate and professional students and independent undergraduate students and, under certain circumstances, dependent undergraduate students ("Federal SLS Loans") were available to certain categories of students until June 30, 1994. Certain prior amendments to the Higher Education Act provided that no new Federal SLS Loans would be made for periods of enrollment beginning after June 30, 1994; however, all prior Federal SLS Loan terms and conditions apply to borrowers with outstanding Federal SLS Loans. Because the Portfolio contains no Federal SLS Loans, this summary contains a minimal description of Federal SLS Loans.

This summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder. This summary is intended as a general description of the Federal Family Education Loan Program and as such certain matters summarized may or may not be specifically applicable to the Student Loan Finance Program of

the Authority. Furthermore, the information contained herein is subject to change after the date of this Official Statement, and this Official Statement speaks only as of its date.

Legislative and Administrative Matters

Both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendments in recent years and there can be no assurance that further amendment will not materially change the provisions described herein or the effect thereof. The Higher Education Act is subject to periodic reauthorization. However, there has been one reauthorization outside of the normal periodic reauthorization process in order to achieve savings in the Federal budget.

The Higher Education Act was most recently reauthorized by the enactment of the Higher Education Amendments of 1998 (Public Law 105-244), signed into law by President Clinton on October 7, 1998. The Higher Education Amendments of 1998 extended the principal provisions of the Federal Family Education Loan Program to September 30, 2004 (or in the case of the borrowers who have received loans prior to that date, to September 30, 2008), except that the authority to make Federal Consolidation Loans expires on September 30, 2004.

No representation is made as to the effect, if any, of future Federal budgetary appropriation or legislation or regulatory actions upon expenditures by the United States Department of Education or upon the financial condition of the Authority.

Subsidized Federal Stafford Loans

The Higher Education Act provides for Federal (i) insurance or reinsurance of eligible Subsidized Federal Stafford Loans, (ii) interest subsidy payments (“Interest Subsidy Payments”) to eligible lenders with respect to certain eligible Subsidized Federal Stafford Loans and (iii) Special Allowance Payments (“Special Allowance Payments”) representing an additional subsidy paid by the Secretary to the holders of eligible Subsidized Federal Stafford Loans.

Eligible Student. Generally, in order to be an eligible Subsidized Federal Stafford Loan, a loan may be made only to a United States citizen or national or otherwise eligible individual under Federal regulations who (i) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution of higher education or vocational school, (ii) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution, (iii) has agreed to notify promptly the holder of the loan of any address change and (iv) meets the applicable “need” requirements set forth in the Higher Education Act. Eligible institutions include institutions of higher education and vocational schools which comply with certain Federal regulations. Loans are to be evidenced by an unsecured promissory note(s).

Interest Rates. The annual interest rate on Federal Stafford Loans, Subsidized or Unsubsidized, first disbursed on or after July 1, 1995 but before July 1, 1998 may not exceed 8.25% under Federal law and is based on the sum of (i) the bond-equivalent rate of the 91-day Treasury bills auctioned at the final auction held prior to June 1 and (ii) a spread factor of 2.5% during the in-school period, the 6-month grace period, and any periods when the borrower qualifies for deferment of repayment or 3.1% during the repayment period and any periods of forbearance of payments. The Authority has promised borrowers whose loans were first disbursed on or after July 1, 1998 that the Authority would cap the rate of interest on Stafford Loans at 7.75%.

The annual interest rate on Federal Stafford Loans, Subsidized or Unsubsidized, first disbursed on or after July 1, 1998 but before July 1, 2003 may not exceed 8.25% and is based on the sum of (i) the bond-equivalent rate of the 91-day Treasury bills auctioned at the final auction held prior to June 1 and (ii) a spread factor of 1.7% during the in-school period, the 6-month grace period, and any periods when the borrower qualifies for deferment of repayment or 2.3% during the repayment period and any periods of forbearance of payments.

Principal Amount. The Higher Education Act requires that loans be disbursed by eligible lenders in at least two separate disbursements unless one of the exceptions specified in Federal regulations applies. Currently, the maximum amount of a Subsidized Federal Stafford Loan for an academic year cannot exceed \$2,625 for the first year of undergraduate study, \$3,500 for the second academic year of undergraduate study, and up to \$5,500 per academic year for the remainder of undergraduate study with lower annual limits established for programs of study of less than a full academic year, and with an aggregate limit for undergraduate study of \$23,000 excluding Federal SLS/PLUS loans. The maximum amount of the loans for periods of enrollment beginning on or after October 1, 1993, for graduate students is \$8,500 for an academic year, and \$65,500 in the aggregate including any such loans for undergraduate study, but excluding Federal SLS/PLUS loans. In either case, the Secretary has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study.

Subject to these limits, Subsidized Federal Stafford Loans are available to borrowers in amounts not exceeding their unmet need, determined as provided in the Higher Education Act. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of Subsidized Federal Stafford Loans program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of Subsidized Federal Stafford Loan funding to borrowers or the availability of Subsidized Federal Stafford Loans for subsequent acquisition.

Repayment. Repayment of principal on a Federal Stafford Loan, Subsidized or Unsubsidized, generally begins upon expiration of the applicable grace period, as described below. Such grace periods may be waived by borrowers. In general, each such loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. Current Federal regulations require that a borrower's payments during the year total at least \$600 unless the borrower and the lender have agreed on a lesser amount. Generally, payments are required monthly. The minimum for payments applies to the borrower and therefore relates to the total obligation for Federal Family Education Loans. Lenders are required to offer borrowers a choice of a standard, graduated or income-sensitive repayment schedule, in accordance with regulations of the Secretary. Regulations permit the postponement of principal payments under conditions which qualify the borrower for "deferment" or "forbearance" as described in the following sections.

Grace Period. The grace period on a Subsidized or Unsubsidized Federal Stafford Loan begins when the borrower ceases to be enrolled as at least a half-time student and ends when the repayment period is required to begin. Unless a borrower requests that the repayment period begin earlier, the grace period is generally 6 months. For Subsidized Federal Stafford Loans, the lender continues to bill the United States Department of Education for the interest that accrues during the grace period.

Deferment Periods. After the beginning of the repayment period, borrowers are entitled to have principal payments deferred during authorized periods when they meet certain conditions specified in the Higher Education Act and comply with requirements defined by the United States Department of Education. For Subsidized Federal Stafford Loans, the lender continues to bill the United States Department of Education for the interest that accrues during the deferment period; however, during

deferment periods on Unsubsidized Federal Stafford Loans and Federal SLS Loans, interest accrues and must be paid by the borrower or capitalized (added to the loan principal balance); accrued interest for deferment periods may not be capitalized more frequently than quarterly and it is common practice to capitalize such interest only at the end of the deferment period. Periods of deferment are excluded in determining the total length of the repayment period. For new borrowers to whom loans are first disbursed on or after July 1, 1993, repayment of principal may be deferred while the borrower is at least a half-time student or is enrolled in an approved graduate fellowship program or is enrolled in a rehabilitation program, or when the borrower is seeking but unable to find full-time employment, subject to a maximum deferment of three years, or when for any reason the lender determines that payment of principal will cause the borrower economic hardship, also subject to a maximum deferment of three years.

Forbearance. If the lender reasonably believes that borrowers intend to repay their loans, lenders are encouraged to grant forbearance to prevent borrowers from defaulting on their repayment obligations. The lender may grant forbearance if the borrower is currently unable to make scheduled payments due to poor health or other acceptable reasons (normally described either in Federal regulations or other official guidance from the United States Department of Education); in certain situations, the lender is required to grant forbearance upon receipt of a request and adequate supporting documentation. In addition, Federal regulations describe situations when “administrative forbearance” may be granted and specify certain situations when the lender must grant a “mandatory administrative forbearance.” The forbearance may be in the form of temporary cessation of payments, allowing an extension of time for making payments, or temporarily accepting smaller payments than previously scheduled. Regardless of loan type, interest accrues throughout any period of forbearance and must be either paid by the borrower or capitalized (interest may not be capitalized more frequently than quarterly but is commonly done at the end of the forbearance period). Periods of forbearance are excluded in determining the total length of the repayment period.

Interest Subsidy Payments. The Secretary pays interest on Subsidized Federal Stafford Loans while the student is enrolled for a sufficient academic workload, during a grace period or during certain deferment periods. The Secretary makes Interest Subsidy Payments to the holder of Subsidized Federal Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any qualified deferment period. The Higher Education Act provides that the holder of an eligible Subsidized Federal Stafford Loan shall be deemed to have a contractual right against the United States to receive Interest Subsidy Payments in accordance with its provisions.

Special Allowance Payments. The Higher Education Act provides for Special Allowance Payments to be made by the Secretary to eligible lenders holding certain Federal Family Education Loans. Special Allowance Payments provide additional income to holders of eligible Federal Family Education Loans, which is meant to provide such holder with a more “equitable” return. The rates for Special Allowance Payments are based on formulas which differ according to the type of loan, the date the loan was originally made or guaranteed, and the type of funding used to finance the loan.

The formulas for loans first disbursed before January 1, 2000 are based on the average of the bond-equivalent rates of 91-day Treasury bills auctioned for the quarter and applied by the United States Department of Education in accordance with Section 438 of the Higher Education Act (the “T-Bill Rate”), and on the maximum interest rate which may be charged on such loan (the “Applicable Loan Rate”). For loans first disbursed on or after July 1, 1995 but before July 1, 1998 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment is equivalent to the T-Bill Rate minus the Applicable Loan Rate plus 2.5% during the in-school period, the grace period and certain deferment periods, and 3.1% during repayment or forbearance periods. For loans

first disbursed on or after July 1, 1998 but before July 1, 2003 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment is equivalent to the T-Bill Rate minus the Applicable Loan Rate plus 2.2% during the in-school period, the grace period and certain deferment periods, and 2.8% during repayment or forbearance periods.

For loans first disbursed on or after January 1, 2000 and before January 1, 2000, the Special Allowance Payment is equivalent to the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in such quarter as reported by the Federal Reserve in Publication H-15 (or its successor) (the "CP Rate") minus the Applicable Loan Rate plus 1.74% during the in-school period, the grace period and certain deferment periods, and 2.34% during repayment or forbearance periods.

Lender Fee. For any loan first disbursed on or after October 1, 1993, a lender is required to pay to the Secretary each quarter a fee equal to 0.50% of the loan amounts disbursed in that quarter.

Unsubsidized Federal Stafford Loans

Effective for periods of enrollment beginning after September 30, 1992, Unsubsidized Federal Stafford Loans are available to students who meet eligibility requirements for loans but do not qualify for the Federal Interest Subsidy Payments on the maximum allowable loan amount. An eligible student may receive both a Subsidized Federal Stafford Loan and an Unsubsidized Federal Stafford Loan for the same enrollment period; however, the combination may not exceed the annual or aggregate loan limits specified in Federal statute or regulations. Unsubsidized Federal Stafford Loans are available to both dependent and independent students; however, independent students have higher loan limits because the maximums allowed under the SLS Program were added to the Federal Stafford Loan maximums effective for periods of enrollments beginning after June 30, 1994, after which no new Federal SLS Loans were made. For independent students, the following amounts are in addition to any Unsubsidized Federal Stafford Loan eligibility under the normal Federal Stafford Loan limits: for the first and second years of undergraduate programs, an independent student may borrow up to an additional \$4,000 for a full-year program (prorated amounts are available for shorter programs of study); up to \$5,000 each year for the remainder of the undergraduate program; and \$10,000 for graduate programs. Amendments in 1996 authorized a higher amount in Unsubsidized Federal Stafford Loans to assist health professions students who were eligible for HEAL assistance for loan periods beginning after June 30, 1996, but could not borrow under the HEAL Program because of lack of funding for that program; for such students the combination of Subsidized and Unsubsidized Federal Stafford Loans may exceed the normal annual loan limit and aggregate limit for Federal Stafford Loans for such students. Aggregate limits of \$46,000 for an undergraduate and \$138,500 for a graduate student include the total of outstanding Federal Stafford Loans, Federal SLS Loans and loans under the Federal Direct Student Loan Program.

The interest rates and Special Allowance Payment provisions, and the lender fee requirements applicable to the Unsubsidized Federal Stafford Loans are the same as for Subsidized Federal Stafford Loans. However, certain terms of the Unsubsidized Federal Stafford Loans differ from those of Subsidized Federal Stafford Loans. The primary difference, in addition to the loan limits (described in the preceding paragraph), is that the Federal government does not make Interest Subsidy Payments during the enrollment period, grace period, or during authorized deferment periods for an Unsubsidized Federal Stafford Loan. Interest accrues from the date of each disbursement and any interest not paid by the borrower during the enrollment, grace, or deferment periods is normally capitalized as described under these topics in the section on Subsidized Federal Stafford Loans.

The repayment period on an Unsubsidized Federal Stafford Loan begins at the end of the 6-month grace period, when the first payment of principal is due from the borrower, although interest begins accruing when each loan disbursement is made. During the grace period on Unsubsidized Federal Stafford Loans interest accrues and must be paid by the borrower or capitalized (added to the loan principal balance at the end of the grace period). At the end of the grace period, the lender may capitalize any accrued interest that the borrower has not paid. The amount of periodic payment and the repayment schedule for an Unsubsidized Federal Stafford Loan are established by assuming an interest rate equal to the applicable rate of interest at the time the repayment of the loan principal commences. At the option of the lender, the note or other written evidence of the loan may require that the amount of the periodic payment be adjusted annually or the period of repayment of principal be lengthened or shortened in order to reflect adjustments in variable interest rates.

Federal PLUS Loan Program

The Higher Education Act authorizes Federal PLUS Loans to be made to parents of eligible dependent students. Only parents who do not have an adverse credit history are eligible for Federal PLUS Loans. The basic provisions applicable to Federal PLUS Loans are similar to those of Subsidized Federal Stafford Loans with respect to the involvement of guarantors and of the Secretary 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 made only under certain conditions.

Principal Amounts. The only limit on the annual and aggregate amounts of Federal PLUS Loans is the difference between the school's certified cost of attendance and estimated financial assistance.

Interest Rates. Interest rates on Federal PLUS Loans depend upon the date of issuance of the loan and the period of enrollment for which the loan is to apply. Federal PLUS Loans first disbursed on or after July 1, 1994 but before July 1, 1998 have an annual variable interest rate, which may not exceed 9%, but is based on the sum of (i) the bond-equivalent rate of 52-week Treasury bills auctioned at the final auction held prior to June 1 and (ii) a "spread" factor of 3.1% throughout the life of the loan. For Federal PLUS Loans first disbursed on or after July 1, 1998 but before July 1, 2003, the interest rate for any 12-month period beginning on July 1 and ending on June 30 will be determined on the preceding June 1 and will be equal to the lesser of (i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to June 1 plus 3.1% or (ii) 9%.

Special Allowance Payments. For Federal PLUS Loans first disbursed on or after July 1, 1994 but prior to July 1, 1998, the Special Allowance Payments for such loans are determined by the same formulas used for Subsidized Federal Stafford Loans. In the case of Federal PLUS Loans first disbursed on or after July 1, 1998 but before January 1, 2000, the Special Allowance Payment will be the equivalent of the T-Bill Rate minus the Applicable Loan Rate plus 3.1%. In the case of Federal PLUS Loans first disbursed on or after January 1, 2000 but before July 1, 2003, the Special Allowance Payment will be the equivalent of the CP Rate minus the Applicable Loan Rate plus 2.64%. In the case of Federal PLUS Loans on which the first disbursement was made after July 1, 1998 but before July 1, 2003, there will be no Special Allowance Payment paid during any 12-month period beginning on July 1 and ending on June 30 unless, on the June 1 preceding such July 1, the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to June 1 plus 3.1% exceeds 9%.

Repayment. Repayment of principal of Federal PLUS Loans is required to commence no later than 60 days after the date of such loan is fully disbursed, subject to certain deferral provisions. In addition, a parent borrower may defer principal payments for periods during which the borrower has a

dependent student for whom the parent borrowed a PLUS Loan, if such student is engaged in a qualified educational program, graduate fellowship program or rehabilitation program.

Repayment of interest, however, may be deferred only during certain periods specified under the Higher Education Act. Further, whereas Federal interest subsidy payments are not available for such deferments, the Higher Education Act provides an opportunity for the capitalization of interest during such periods upon agreement of the lender and borrower. The annual loan limit is not affected by any decision to capitalize interest.

A borrower may request refinancing to obtain a combined payment for all Federal SLS and PLUS Loans which gives the borrower an extended repayment period based on up to 120 months from the date of the newest loan in the combined schedule. The interest rate of such refinanced loan shall be the weighted average of the rates of all loans being refinanced. A second type of refinancing enables an eligible lender to reissue a PLUS Loan which was initially originated at a fixed rate prior to July 1, 1987 in order to permit the borrower to obtain the variable interest rate available on Federal PLUS Loans on and after July 1, 1987. If a lender is unwilling to refinance the original Federal PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

Federal Consolidation Loan Program

Until September 30, 2004, the Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to Federal Stafford Loans. Federal Consolidation Loans may generally be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on all Federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program selected by the borrower, as well as loans made pursuant to the Federal Perkins (formally "National Direct Student Loan") Loan Program, the Health Professional Student Loan Program, the Health Education Assistance Loan Program, the Federally Insured Student Loan Program the Federal Nursing Student Loan Program and the Federal Direct Loan Program.

Eligibility Requirements. Generally, a borrower must be either in repayment status or in a grace period preceding repayment and must not be subject to a judgment or an order for wage garnishment. A defaulted borrower may qualify for a Federal Consolidation Loan if the borrower has made satisfactory repayment arrangements with the holder of the defaulted loan or has agreed to an income-sensitive repayment plan. Borrowers may add additional loans to a Federal Consolidation Loan during the 180-day period following origination of the Federal Consolidation Loan. Further, a married couple who agrees to be jointly and severally liable will be treated as one borrower for purposes of Federal Consolidation Loan eligibility. A Federal Consolidation Loan will be Federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

Interest Rates. Federal Consolidation Loans made after July 1, 1994 bear an interest rate which equals the weighted average of interest rates on the unpaid principal balance of outstanding loans, rounded upward to the next whole percent. Federal Consolidation Loans based upon consolidation applications received on or after November 13, 1997 but before October 1, 1998 bear an annual variable interest rate equal to the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to June 1 plus 3.10%, not to exceed 8.25%. For Federal Consolidation Loans based upon consolidation applications received on or after October 1, 1998, the applicable rate of interest will be at an annual rate on the unpaid principal balance of the loan that is equal to the lesser of (i) the weighted

average of the interest rates on the loans consolidated, rounded to the nearest higher one-eighth of one percent or (ii) 8.25%.

Deferment Periods. Borrowers may defer periodic payments of principal under the same circumstances authorized for deferments and for periods similar to those for Federal Stafford Loans. During deferment periods for Federal Consolidation Loans for which an application was made prior to November 13, 1997, interest shall accrue and must be paid by the Secretary in the case of a Federal Consolidation Loan which consolidated only Subsidized Federal Stafford Loans or by the borrower (or capitalized) in the case of any other Federal Consolidation Loan. During deferment periods for Federal Consolidation Loans for which an application was made on or after November 13, 1997, interest shall accrue and must be paid by the Secretary in the case of that portion of the Federal Consolidation Loan that repays Subsidized Federal Stafford Loans or Subsidized Direct Stafford Loans and by the borrower (or capitalized) in the case of the other portion of the Federal Consolidation Loan. Borrowers may elect to accelerate principal payments without penalty.

Special Allowance Payments. For Federal Consolidation Loans based on consolidation applications received prior to October 1, 1998 which are not financed with the proceeds of tax-exempt obligations issued before October 1, 1993, the Special Allowance Payment is equivalent to the T-Bill Rate minus the Applicable Loan Rate plus 3.1%.

For Federal Consolidation Loans based upon consolidation applications received on or after October 1, 1998 and before January 1, 2000, the Special Allowance Payment would be equivalent to the T-Bill Rate minus the Applicable Loan Rate plus 3.1%. For Federal Consolidation Loans based upon consolidation applications received on or after October 1, 1998 and before January 1, 2000, there would be no Special Allowance Payments for such loans during any 3-month period ending March 31, June 30, September 30, or December 31 unless the average of the bond equivalent rate of 91-day Treasury bills auctioned for such 3-month period plus 3.1% exceeds the interest determined for such loans. For Federal Consolidation Loans based upon consolidation applications received on or after January 1, 2000 but before July 1, 2003, the Special Allowance Payment will be the equivalent of the CP Rate minus the Applicable Loan Rate plus 2.64%. For Federal Consolidation Loans based upon consolidation applications received on or after January 1, 2000 and before July 1, 2003, there would be no Special Allowance Payments for such loans during any 3-month period ending March 31, June 30, September 30 or December 31 unless the CP Rate plus 2.64% exceeds the interest rate determined for such loans.

Further, no insurance premium may be charged to a borrower and no insurance premium may be charged to a lender in connection with a Federal Consolidation Loan. However, a fee may be charged to the lender by the guarantor to cover the costs of increased or extended liability with respect to a Federal Consolidation Loan.

Any holder of a Federal Consolidation Loan first disbursed on or after October 1, 1993, is to pay to the Secretary a rebate fee (calculated and paid monthly) equal to 1.05% per annum of the principal plus accrued, unpaid interest on such loan. For Federal Consolidation Loans based on applications received during the period from October 1, 1998 through January 31, 1999, inclusive, the rebate described in the preceding sentence shall be equal to 0.62% of the principal plus accrued, unpaid interest on such loan.

Repayment. Repayment of Federal Consolidation Loans begins 60 days after discharge of all prior loans which are consolidated. Federal interest subsidy payments are not available with respect to Federal Consolidation Loans except as described above. Repayment schedules structured by the lender must include the establishment of graduated and income-sensitive repayment plans, subject to certain limits applicable to the sum of the Federal Consolidation Loan and the amount of the borrower's other

eligible student loans outstanding. Generally, depending on the total of loans outstanding, repayment may be scheduled over periods no shorter than ten but not more than thirty years in length. The maximum maturity schedule is thirty years for Federal Consolidation Loans of \$60,000 or more.

Direct Loans. If a borrower is unable to obtain a Federal Consolidation Loan with income-sensitive repayment terms acceptable to the borrower from the holders of the borrower's outstanding loans (which are selected for consolidation), or from any other lender, the Secretary is required to offer the borrower, if the borrower so requests, a direct Federal Consolidation Loan under the Federal Direct Student Loan Program. Such direct Federal Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provisions under the Federal Consolidation Loan provisions. If the Secretary determines that the United States Department of Education does not have the necessary origination and servicing arrangements in place for such loans, the Secretary shall not offer such loans.

Federal Insurance and Reinsurance and Reimbursement of Loan Holders

For loans made on or after October 1, 1993, a holder of a guaranteed loan may be reimbursed by the guarantor for 98% (or 100% for certain loans or certain claims) of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the loan has been properly serviced.

A holder of a loan is required to exercise due care and diligence in the making, servicing and collecting of the loan as specified in Federal regulations and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guarantor has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guarantor may take reasonable action including withholding of payments or requiring reimbursement of funds. The guarantor may also terminate the agreement with the holder for cause upon notice and hearing.

Federal Insurance and Reinsurance and Reimbursement of Guarantors

Under the Higher Education Act, the Authority, as a guaranty agency, is reimbursed by the Secretary for amounts paid to eligible lenders by the Authority, as guarantor, with respect to defaulted loans. The Secretary is to reimburse a guarantor in an amount equal to the applicable coverage for losses upon notice and determination of such amounts subject to reduction based on the guarantor's claims rate, calculated in accordance with the Higher Education Act. The maximum reinsurance payment with respect to loans first disbursed prior to October 1, 1998 for guarantors with claims rates in the lowest category is 98% (or 100% for certain loans or certain claims). For loans first disbursed on or after October 1, 1998, such maximum reinsurance payment is 95% (or 100% for certain loans or certain claims). Historically, the Authority has had claims rates in the lowest category.

The Higher Education Act provides that, subject to compliance with such Act, the full faith and credit of the United States is pledged to the payment of insurance claims and such reinsurance is not subject to reduction. It further provides that guarantors shall be deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. In addition, if a guarantor is unable to meet its guarantee obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guarantor capable of meeting such obligations or until a successor guarantor assumes such obligations. Federal reinsurance and insurance payments for defaulted loans are paid from the student loan insurance fund established under the Higher Education Act. The Secretary is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such

Federal payments. Furthermore, a guarantor's reserve fund assets are dedicated to the loan programs and may not be used for unauthorized purposes.

Upon periodic application by a guarantor pursuant to the Higher Education Act, the Secretary is authorized to pay to the guarantor a loan processing and issuance fee equal to 0.65% of the total principal amount of loans guaranteed in each of the fiscal years beginning with fiscal years on or after October 1, 1998. Effective for fiscal years beginning on or after October 1, 2003, the loan processing and issuance fee is reduced to 0.40%. A guaranty agency is paid an account maintenance fee based upon the original principal amount of outstanding Federal Family Education Loans insured by such guaranty agency. For Federal fiscal years 1999 and 2000, the fee is 0.12%. After Federal fiscal year 2000, the fee will be 0.10%.

SUMMARY OF GENERAL RESOLUTION

A summary of certain provisions of the General Resolution, including a list of definitions of terms, is included as Appendix B hereto. Such summary does not purport to be complete, and is limited in all respects by reference to the complete document.

LITIGATION

No litigation is now pending or, to the best of the Authority's knowledge, threatened against or affecting the Authority seeking to restrain or enjoin the adoption, approval, authorization, execution or delivery of the Series G Bonds or the G Series Resolution or contesting the validity or the authority or proceedings for the adoption, approval, authorization, execution or delivery of the Series G Bonds, the General Resolution or the G Series Resolution or the pledge or application of any moneys provided for the payment of or security for the Series G Bonds or the Authority's or Foundation's creation, organization or existence, or the title of any of the Authority's or Foundation's present officers to their respective offices or the authority or proceedings for the Authority's adoption, approval, authorization, execution and delivery of the Series G Bonds, the General Resolution or the G Series Resolution or the Authority's authority to carry out its obligations thereunder, or which would have a material adverse impact on the Authority's condition, financial or otherwise.

LEGAL MATTERS

Legal matters relating to the authorization, execution, sale and delivery of the Series G Bonds are subject to the approval of McNair Law Firm, P.A., Charleston, South Carolina, Bond Counsel. Certain legal matters will be passed upon for the Authority by its Assistant Director for Legal Affairs & General Counsel, counsel to the Authority, and for the Foundation by Bailey & Dixon, L.L.P., Raleigh, North Carolina, counsel to the Foundation. Certain legal matters will be passed upon for the Underwriters by Poyner & Spruill L.L.P., Raleigh, North Carolina, counsel to the Underwriters.

TAX MATTERS

In the opinion of McNair Law Firm, P.A., Bond Counsel, interest on the Series G Bonds is not excluded from the gross income of the owners thereof for Federal income tax purposes. Bond Counsel is further of the opinion that interest on the Series G Bonds is not subject to present taxation as income by

the State and that the Series G Bonds are free from taxation by the State or any local unit or political subdivision or other instrumentality of the State, excepting inheritance or gift taxes, income taxes on the gain from the transfer of the Series G Bonds and franchise taxes.

RATINGS

Moody's Investors Service ("Moody's") is expected to assign the Series G Bonds a rating of "Aaa", and Fitch IBCA, Inc. ("Fitch"), is expected to assign the Series G Bonds a rating of "AAA". Receipt of letters confirming such ratings is a condition precedent to the delivery of the Series G Bonds. An explanation of the significance of the rating given by Moody's may be obtained from Moody's at 99 Church Street, New York, New York 10007-2796 (212-553-0300). An explanation of the significance of the rating given by Fitch may be obtained from Fitch at One State Street Plaza, New York, New York 10004 (212-908-0500). The ratings reflect only the view of the rating agencies, and the Authority, the Underwriters and Financial Advisor (hereinafter defined) make no representations as to the appropriateness of the ratings. The Authority and the Foundation have furnished the rating agencies with certain materials and information not included in this Official Statement. There is no assurance that the ratings will continue for any given period of time or that the ratings will not be revised or withdrawn entirely by Moody's or Fitch, if, in the judgment of either of them, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Series G Bonds.

UNDERWRITING

The Underwriters shown on the cover page hereof have agreed, subject to certain conditions set forth in a Bond Purchase Agreement with the Authority, to purchase the Series G Bonds at a price equal to 100% of the principal amount thereof, less an underwriters' discount of \$1,172,000. The Underwriters are committed to take and pay for all of the Series G Bonds if any are taken. The Underwriters may offer and sell the Series G Bonds to certain dealers (including dealers depositing the Series G Bonds into investment trusts) and others at prices lower than the initial public offering prices stated on the cover page hereof. The public offering prices may be changed from time to time by the Underwriters.

LEGALITY FOR INVESTMENT

The Act provides that the Series G Bonds are securities in which all public officers and public bodies of the State and its political subdivisions, all insurance companies, trust companies, banking associations, investment companies, executors, administrators, trustees and other fiduciaries may properly and legally invest funds, including capital of their control or belonging to them. The Series G Bonds are securities which may properly and legally be deposited with and received by any State or municipal officer or any agency or political subdivision of the State for any purpose for which deposit of bonds or obligations of the State is now or may hereafter be authorized by law.

CONTINUING DISCLOSURE

In the G Series Resolution, the Authority has undertaken, for the benefit of the Beneficial Owners of the Series G Bonds, to provide:

(a) by not later than seven months from the end of each Fiscal Year of the Authority, to each nationally recognized municipal securities information repository (“NRMSIR”) and to the state information depository for the State (“SID”), if any, audited financial statements of the Authority for such Fiscal Year, if available, prepared in accordance with Section 159-34 of the North Carolina General Statutes, as it may be amended from time to time, or any successor statute, or, if such audited financial statements of the Authority are not available by seven months from the end of such Fiscal Year, unaudited financial statements of the Authority for such Fiscal Year to be replaced subsequently by audited financial statements of the Authority delivered within 15 days after such audited financial statements become available for distribution;

(b) by not later than seven months from the end of each Fiscal Year of the Authority, to each NRMSIR, and to the SID, if any, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included under the headings “THE AUTHORITY — Student Loan Insurance Program” and “PORTFOLIO OF GUARANTEED LOANS” herein and (ii) the combined budget of the Authority for the current Fiscal Year, to the extent such items are not included in the audited financial statements referred to in (a) above;

(c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, if any, notice of any of the events set forth in Rule 15c2-12(b)(5)(i)(C) issued under the Securities Exchange Act of 1934 (as such Rule exists on the date of this Official Statement) with respect to the Series G Bonds, if material; and

(d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the Authority to provide required annual financial information described in (a) or (b) above on or before the date specified.

The Authority’s financial statements are prepared in accordance with generally accepted accounting principles and to be audited in accordance with generally accepted auditing standards.

The G Series Resolution will also provide that if the Authority fails to comply with the undertaking described above, any Beneficial Owner of the Series G Bonds or the Trustee may take action to protect and enforce the rights of all Beneficial Owners with respect to such undertaking, including an action for specific performance; provided, however, that failure to comply with such undertaking shall not be an Event of Default and shall not result in any acceleration of payment of the Series G Bonds. All actions shall be instituted, had and maintained in the manner provided in this paragraph for the benefit of all Beneficial Owners of the Series G Bonds.

Pursuant to the G Series Resolution, the Authority will reserve the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Authority, provided that:

(a) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Authority;

(b) the information to be provided, as modified, would have complied with the requirements of Rule 15c2-12 issued under the Securities Exchange Act of 1934 (“Rule 15c2-12”) as of the date of this Official Statement, after taking into account any amendments or interpretations of Rule 15c2-12, as well as any changes in circumstances; and

(c) any such modification does not materially impair the interests of the Beneficial Owners, as determined either by parties unaffiliated with the Authority, or by the approving vote of the registered owners of a majority in principal amount of the Series G Bonds pursuant to the terms of the G Series Resolution, as it may be amended from time to time, at the time of the amendment.

Any annual financial information containing modified operating data or financial information is required to explain, in narrative form, the reasons for the modification and the impact of the change in the type of operating data or financial information being provided.

The undertaking described above will terminate upon payment, or provision having been made for payment in a manner consistent with Rule 15c2-12, in full of the principal of and interest on all of the Series G Bonds.

FINANCIAL STATEMENTS

The financial statements of the Authority for its fiscal year ended June 30, 1999 were audited by Koonce, Wooten & Haywood, L.L.P. as set forth in their report dated October 28, 1999. Such financial statements and report are included as Appendix A hereto and represent the most current audited financial information for the Authority. Such financial statements have been included in reliance upon the report of Koonce, Wooten & Haywood, L.L.P. given upon their authority as experts in accounting and auditing.

The Authority was created pursuant to North Carolina General Statutes as an organizational unit of The University of North Carolina - General Administration. As an organizational unit of General Administration, no general purpose financial statements of the Authority were prepared in years ended prior to June 30, 1995. Also, being a part of State government, no monthly or interim financial statements are prepared.

Accounting and financial responsibility for Authority funds is handled by the General Administration of The University of North Carolina. In prior years, the North Carolina State Auditor has performed periodic audits of the Authority's funds as part of the audit of The University of North Carolina - General Administration. However, as required by Federal regulation or by direction of the Board of Trustees, the following funds were audited annually by independent certified public accountants:

1. North Carolina Student Loan Fund
2. State Education Assistance Authority Reserve Trust Fund
3. North Carolina Student Incentive Grant Program
4. Paul Douglas Teacher Scholarships
5. State Budget Code 66011
6. Contingency Fund

The implementation of Governmental Accounting Standards Board Statement No. 14 required the discrete presentation of condensed financial statements for certain significant component units in the State's annual financial report. The Authority meets the criteria for a component unit and is discretely presented in the June 30, 1999 State of North Carolina's Comprehensive Annual Financial Report (CAFR) by the State Auditor's Office and the Office of the State Controller.

Since the Series G Bonds are limited obligations of the Authority payable from the sources as described herein, the overall financial status of the Authority may not indicate and may not necessarily affect whether such sources will be available to pay the principal of and interest on the Series G Bonds.

FINANCIAL ADVISORY SERVICES

William R. Hough & Co., Charleston, South Carolina, has served as financial advisor (the “Financial Advisor”) to the Authority with respect to the Series G Bonds. The Financial Advisor is not a public accounting firm and has not been engaged by the Authority to compile, review, examine or audit any information in this Official Statement in accordance with accounting standards. The Financial Advisor will not participate in the underwriting of the Series G Bonds.

RELATIONSHIPS AMONG PARTIES

Richard B. Roberts, the Chairman of the Authority’s Board, is a retired Executive Vice President of Wachovia Corporation, the parent company of Wachovia Securities, Inc., an underwriter of the Series G Bonds. Margaret H. Farnham, a member of the Authority’s Board, is a Vice President in the Financial Strategies Group of Bank of America, N.A., which is affiliated with Banc of America Securities LLC, an underwriter of the Series G Bonds. Mr. Roberts and Ms. Farnham did not take part in any formal action with respect to the Series G Bonds.

MISCELLANEOUS

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact.

The execution of this Official Statement by the Executive Director of the Authority has been duly authorized by the Authority’s Board.

This Official Statement is “deemed final” for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission.

STATE EDUCATION ASSISTANCE AUTHORITY

/s/ Steven E. Brooks

Executive Director

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY

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NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY

Financial Statements

June 30, 1999 and 1998

BOARD OF DIRECTORS

Richard B. Roberts
F. V. Allison, Jr.
Arlene M. Ferren
Steven E. Brooks

Chairman
Vice-Chairman
Treasurer
Secretary and Executive
Director of the Authority

Lewis W. Ammons, Jr.
Conrad Pridgen

Nathan Simms
Patsy Tharrington

Algie C. Gatewood
Julia R. Hoke
Elizabeth V. McDuffie
Wayne E. Johnson
Assistant Secretaries and Assistant Directors
of the Authority

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TABLE OF CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Balance Sheets	2
Statements of Revenues, Expenses and Changes in Fund Equity	3
Statements of Cash Flows	4-5
Notes to Financial Statements	6-17



Koonce Wooten & Haywood, LLP

CERTIFIED PUBLIC ACCOUNTANTS

The Officers and Directors
North Carolina State Education Assistance Authority
Research Triangle Park, North Carolina

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying general purpose financial statements of the North Carolina State Education Assistance Authority, a component unit of the State of North Carolina, as of and for the years ended June 30, 1999 and 1998, as listed in the table of contents. These general purpose financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Education Assistance Authority, as of June 30, 1999 and 1998, and the results of its operations and cash flows for the years then ended in conformity with generally accepted accounting principles.

Koonce, Wooten & Haywood, LLP

Raleigh, North Carolina
October 28, 1999

Raleigh

4060 Barrett Drive
Post Office Box 17806
Raleigh, North Carolina 27619

919 782 9265
919 783 8937 FAX

Pittsboro

148 East Street
Post Office Box 1399
Pittsboro, North Carolina 27312

919 542 6000
919 542 5764 FAX

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Balance Sheets
June 30, 1999 and 1998

ASSETS

	<u>1999</u>	<u>1998</u>
CURRENT ASSETS:		
Cash and Cash Equivalents	\$ 182,923,082	\$ 173,321,448
Investments	274,510,881	235,901,126
Receivables:		
Accounts Receivable	251,165	
Intergovernmental Receivables	10,462,644	7,833,618
Interest Receivable	11,583,678	9,172,536
Due from Primary Government	14,577,013	13,220,868
Notes Receivable	75,372,165	37,217,044
Unamortized Bond Issuance Expenses	298,806	245,991
Inventories	5,683	5,521
Total Current Assets	<u>569,985,117</u>	<u>476,918,152</u>
NONCURRENT ASSETS:		
Notes Receivable	525,109,269	421,948,048
Unamortized Bond Issuance Expenses	3,700,706	2,442,368
Total Non-Current Assets	<u>528,809,975</u>	<u>424,390,416</u>
FIXED ASSETS:		
Office Furniture and Equipment	297,473	209,637
Data Processing System	1,167,551	807,201
Other Equipment	115,316	49,486
Accumulated Depreciation	<u>(606,821)</u>	<u>(435,791)</u>
Net Fixed Assets	<u>973,519</u>	<u>630,533</u>
Total Assets	<u>\$ 1,099,768,611</u>	<u>\$ 901,939,101</u>

LIABILITIES AND FUND EQUITY

CURRENT LIABILITIES:		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 1,541,954	\$ 564,428
Intergovernmental Payables	73,634	
Accrued Payroll	88,630	57,807
Interest Payable	2,938,524	2,642,601
Accrued Vacation Leave	84,333	67,658
Notes Payable	21,595,661	84,825,537
Obligations Under Securities Lending Transactions	108,243,927	114,040,772
Total Current Liabilities	<u>134,566,663</u>	<u>202,198,803</u>
NONCURRENT LIABILITIES:		
Bonds Payable	521,476,650	294,113,925
Intergovernmental Payables	10,922,351	5,458,176
Total Noncurrent Liabilities	<u>532,399,001</u>	<u>299,572,101</u>
Total Liabilities	666,965,664	501,770,904
FUND EQUITY:		
Retained Earnings	<u>432,802,947</u>	<u>400,168,197</u>
Total Liabilities and Fund Equity	<u>\$ 1,099,768,611</u>	<u>\$ 901,939,101</u>

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Revenues, Expenses and Changes in Fund Equity
For The Years Ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
OPERATING REVENUES:		
Investment Earnings	\$ 19,383,634	\$ 27,154,846
Interest Earnings on Loans	43,251,253	33,883,103
Miscellaneous	<u>1,431,007</u>	<u>1,055,755</u>
Total Operating Revenues	<u>64,065,894</u>	<u>62,093,704</u>
OPERATING EXPENSES:		
Personal Services	1,557,977	1,264,167
Supplies and Materials	55,859	41,022
Services	10,001,012	8,251,310
Interest	31,324,383	23,163,867
Depreciation and Amortization	467,683	393,395
Student Loan Service Cancellations	8,933,828	8,518,780
Guaranty Agency Reserve Recall	5,464,175	5,458,176
Other Expenses	<u>804,093</u>	<u>906,947</u>
Total Operating Expenses	<u>58,609,010</u>	<u>47,997,664</u>
Operating Income	<u>5,456,884</u>	<u>14,096,040</u>
NON-OPERATING REVENUES (EXPENSES):		
Federal Grants	2,729,780	2,575,239
Grants, Aids and Subsidies	<u>(2,084,726)</u>	<u>(2,539,589)</u>
Total Non-Operating Revenues (Expenses)	<u>645,054</u>	<u>35,650</u>
Income Before Operating Transfers	6,101,938	14,131,690
OPERATING TRANSFERS:		
Transfers from Primary Government	<u>26,532,812</u>	<u>22,830,311</u>
Net Income	32,634,750	36,962,001
FUND EQUITY--July 1	<u>400,168,197</u>	<u>363,206,196</u>
FUND EQUITY--June 30	<u>\$ 432,802,947</u>	<u>\$ 400,168,197</u>

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For The Years Ended June 30, 1999 and 1998

	1999	1998
CASH PROVIDED FROM (USED FOR) OPERATIONS:		
Operating Income	\$ 5,456,884	\$ 14,096,040
Adjustments to Reconcile Operating Income to Net Cash Flows from Operating Activities:		
Depreciation and Amortization	467,683	393,395
Investment Earnings	(19,383,634)	(27,154,846)
Student Loan Principal Repayments	193,944,034	33,141,411
Student Loans Issued	(337,546,943)	(155,376,572)
Student Loan Cancellations and Write-offs	6,617,393	6,441,630
Allowances and Uncollectable Accounts	2,459,500	2,078,000
Capitalized Interest and Other	(6,790,326)	(5,336,093)
Securities Transaction Fees	5,002,962	4,845,535
(Increases) Decreases in Assets:		
Accounts Receivables	(251,165)	
Intergovernmental Receivables	(2,629,026)	(2,376,837)
Investment Earnings Receivable	(2,306,450)	(2,533,542)
Due from Primary Government	(1,356,145)	(1,420,861)
Inventories	(162)	(2,739)
Increases (Decreases) in Liabilities:		
Accounts Payable	977,526	460,575
Intergovernmental Payables	5,537,809	5,458,176
Accrued Payroll	30,823	(6,581)
Interest Payable	295,923	728,617
Accrued Vacation Leave	16,675	731
Total Cash Provided from (Used for) Operations	(149,456,639)	(126,563,961)
CASH PROVIDED FROM (USED FOR)		
NONCAPITAL FINANCING ACTIVITIES:		
Proceeds from Sale of Bonds	240,000,000	30,000,000
Proceeds from Sale of Notes	25,925,000	88,480,000
Repayment of Bond Principal	(12,637,275)	(5,136,075)
Repayment of Note Principal	(89,154,876)	(3,654,463)
Bond Issuance Cost	(1,596,564)	(304,695)
Operating Transfers from Primary Government	26,532,812	22,830,311
Federal Grants	2,729,780	2,575,239
Grants, Aids and Subsidies	(2,084,726)	(2,539,589)
Total Cash Provided from (Used for) Noncapital Financing Activities	189,714,151	132,250,728
CASH PROVIDED FROM (USED FOR)		
CAPITAL FINANCING ACTIVITIES:		
Acquisition of Fixed Assets	(525,257)	(74,244)
Total Cash Provided from (Used for) Capital Financing Activities	(525,257)	(74,244)

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Statements of Cash Flows
For The Years Ended June 30, 1999 and 1998

	<u>1999</u>	<u>1998</u>
CASH PROVIDED FROM (USED FOR)		
INVESTMENT ACTIVITIES:		
Proceeds from the Sale of Non-State Treasurer Investments	\$ 172,222,818	\$ 25,310,000
Purchase of Non-State Treasurer Investments	(215,739,839)	(22,296,067)
Investment Earnings	<u>13,386,400</u>	<u>9,311,728</u>
Total Cash Provided from (Used for) Investment Activities	<u>(30,130,621)</u>	<u>12,325,661</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 9,601,634	 17,938,184
 CASH AND CASH EQUIVALENTS--July 1	 <u>173,321,448</u>	 <u>155,383,264</u>
 CASH AND CASH EQUIVALENTS--June 30	 <u>\$ 182,923,082</u>	 <u>\$ 173,321,448</u>
 SUPPLEMENTAL DISCLOSURES OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for:		
Interest	\$ 26,025,498	\$ 17,589,715
 NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer Long-Term Investment Pool	\$ 7,720,426	\$ 7,181,033
Investment Earnings from Securities Lending Transactions	\$ 5,002,962	\$ 4,845,535
Write-up (down) of Investments to Fair Market Value	\$ (6,830,847)	\$ 5,640,746

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

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

1. Summary of Significant Accounting Policies

A. Organization and Reporting Entity:

The implementation of Governmental Accounting Standards Board Statement No. 14 required the discrete presentation of condensed financial statements for certain significant component units in the State of North Carolina's annual financial report. The North Carolina State Education Assistance Authority meets the criteria for a component unit and is discretely presented in the June 30, 1999 and 1998 State of North Carolina Comprehensive Annual Financial Reports (CAFR) by the State Auditor's Office and the Office of the State Controller.

The accompanying financial statements report on all funds subject to the direct administrative authority and responsibility of the Authority. These funds are as follows:

1. Reserve Trust Fund
2. Administrative Cost Allowance
3. Collection Retainer Recovery Fund
4. North Carolina Student Loan Fund
5. North Carolina Student Incentive Grant Program
6. Paul Douglas Teacher Scholarship Program
7. State Budget Code 66011
8. Contingency Fund
9. North Carolina Student Loan Program for Health, Science and Mathematics
10. North Carolina Nurse Scholars Program
11. North Carolina Masters Nurse Scholars Program
12. North Carolina Nurse Education Scholarship Loan Program
13. Principal Fellows Loan Program
14. Social Workers Scholarship Loan Fund
15. Guaranteed Student Loan Revenue Bond Fund
16. College Vision Savings Program

A special restricted trust fund, maintained in State budget code 66010, is used to insure loans to students by eligible lenders according to the provisions of the Higher Education Act of 1965 and the National Vocational Student Loan Insurance Act of 1965.

B. Basis of Accounting and Reporting:

The accompanying financial statements of the Authority are presented under the accrual basis of accounting as prescribed by the Governmental Accounting Standards Board (GASB), as well as the American Institute of Certified Public Accountants (AICPA) and Financial Accounting Standards Board (FASB) pronouncements specifically made applicable to state and local governmental entities by GASB Statements and Interpretations. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred. In accordance with GASB Statement No. 20 "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting", the State does not apply FASB pronouncements issued after November 30, 1989 for proprietary activities, unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

1. Summary of Significant Accounting Policies (Continued)

The Authority is a sub-agency of the University of North Carolina - General Administration (UNC-GA). As a sub-agency, its records are maintained on the UNC-GA accounting system under the National Association of Colleges and University Business Offices fund structure. For state level (CAFR) reporting requirements, the financial records of the Authority are presented under the GASB enterprise proprietary fund format. This enterprise proprietary fund includes all resources, liabilities and transactions pertaining to primary and supportive operational activities of the Authority.

Accounting records for funds with state appropriated budgets are maintained on the cash basis of accounting. The cash basis records are adjusted as of the end of the fiscal year in order to prepare accrual basis financial statements. State budgets are maintained in compliance with provisions of the Executive Budget Act, North Carolina General Statutes 143-1 through 143-34.5, and trust funds are maintained in compliance with General Statute 116-36.1.

The balance sheets include a self-balancing set of assets, liabilities, and residual equity that report the financial position of the Authority at the end of the fiscal years ended June 30, 1999 and 1998.

The Statements of Revenues, Expenses and Changes in Fund Equity include the one accounting fund group and identify activities which changed retained earnings balances during the fiscal years. These statements identify additions to and deductions from retained earnings balances and transfers from primary government.

C. Accounting Estimates:

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

D. Fixed Assets and Depreciation:

A capitalization threshold of \$5,000 is utilized; therefore, any equipment items costing less than this amount are reflected as expenditures of the fund in the year of acquisition. Fixed assets are reported at cost or, for donated properties, at estimated fair values as of the dates of receipt. The capitalization of newly acquired fixed assets and disposal of recently retired fixed assets are included in the fund. Depreciation is computed using the straight-line method over the estimated useful life of the assets as follows: Office furniture and equipment and data processing systems, 5 years; other equipment, 10 years.

E. Cash and Cash Equivalents:

This classification includes cash on deposit with the State Treasurer, trustees, and commercial banks. Investments are deemed to be cash equivalents if they are readily convertible to cash and have original maturities of three months or less with the exception of commercial repurchase agreements which are considered short-term investments.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

1. Summary of Significant Accounting Policies (Concluded)

F. Investments:

Investments are accounted for in accordance with Governmental Accounting Standards Board Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools". Investments in (a) interest-earning investment contracts, (b) external investment pools, (c) open-end mutual funds, (d) debt securities, and (e) equity securities with readily determinable fair values are measured at fair value on the balance sheet.

G. Receivables:

Provision for expenses and losses on receivables is made in amounts required to maintain an adequate allowance to cover receivables paid through service cancellations and bad debts. At year end, the allowance is adjusted by management based on review of the receivables.

H. Inventories:

Inventories held by the Authority are priced at the lower of cost or market using the first-in, first-out method. The inventory consists of postage.

I. Vacation and Sick Leave:

The Authority records the cost of vacation leave when earned. The policy provides for a maximum accumulation of unused vacation leave of 30 days which can be carried forward each January 1 or for which an employee can be paid upon termination of employment. Also, any accumulated vacation leave in excess of 30 days at year end is converted to sick leave. Under this policy, the accumulated vacation leave for each employee at June 30 equals the leave carried forward at the previous December 31 plus the leave earned less the leave taken between January 1 and June 30.

The Authority, in accordance with state policy, recognizes the cost of sick leave when paid to employees rather than when leave is earned. The policy provides for unlimited accumulation of sick leave, but an employee cannot be compensated for unused sick leave upon termination of employment. However, upon retirement from service to the State, accumulated sick leave will serve to increase the amount of monthly retirement plan benefits payable to retirees. Accordingly, payments to retired state employees for accumulated sick leave will utilize resources of the State Retirement System rather than those of the Authority or the North Carolina General Fund. At June 30, 1999 and 1998 the Authority had a contingent liability of \$255,139 and \$215,308, respectively, for unused sick leave. These amounts are based on salary and benefit rates prevailing at June 30, 1999 and 1998.

J. Income Taxes:

The Authority is a political subdivision of the State of North Carolina. Accordingly, exemption from state and local taxation is provided by Chapter 116, Article 23 of the North Carolina General Statutes. Internal Revenue Code Section 115 provides exemption from federal income taxes.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

2. Deposits and Investments

A. Deposits:

Cash and cash equivalents include cash in the State Treasurer's Short-Term Investment Fund (STIF) and Budget Code Cash; funds held by trustees in interest bearing money market accounts; and bank accounts totaling \$182,923,082 at June 30, 1999 and \$173,321,448 at June 30, 1998. The Authority's portion of the State Treasurer's Cash and Investment Pool at June 30, 1999 and 1998 was \$174,106,972 and \$157,872,692, respectively. It is the State Treasurer's policy and practice for the deposits not covered by federal depository insurance to be covered by collateral held by the State of North Carolina's agent in the name of the State and for the investments to be held by the State's agent in the State's name. The carrying amount of the Authority's deposits not with the State Treasurer at June 30, 1999 and 1998 was \$8,816,110 and \$15,448,756, respectively. These deposits were held by trustees. Of these amounts, \$8,816,110 at June 30, 1999 and \$15,443,823 at June 30, 1998, was in money market funds and was not collateralized.

B. Investments:

Investments at June 30, 1999 and 1998 are summarized as follows:

	<u>1999</u>	<u>1998</u>
State Treasurer Long-Term Investment Pool	\$ 105,273,848	\$ 104,172,143
Repurchase Agreements	50,442,778	12,304,058
U. S. Government Obligations	10,550,328	5,384,153
Securities Lending Collateral Investment Pool	<u>108,243,927</u>	<u>114,040,772</u>
	<u>\$ 274,510,881</u>	<u>\$ 235,901,126</u>

The Authority is authorized by the University of North Carolina Board of Governors to invest its special funds in the same manner as the State Treasurer is required to invest by General Statutes. All of the Authority's investments with the State Treasurer are invested in such a way.

Investments maintained by the Authority (separate from those maintained by the State Treasurer) are comprised of repurchase agreements and U.S. Government obligations held by trustees. These investments are category one securities held by the Authority's agent in the Authority's name.

C. Securities Lending Transactions:

Based on the authority provided in G.S. 147-69.3(e), the State Treasurer lends securities from its investment pools to broker-deals and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Treasurer's securities custodian manages the securities lending program. During the year, the custodian lent U.S. government securities, corporate bonds, notes, and common stock for collateral. The custodian is permitted to receive cash, U.S. government securities, or irrevocable letters of credit as collateral for the securities lent. The collateral is initially pledged at 102 percent of the market value of the securities lent, and additional collateral is required if its value falls to less than 100 percent of the market value of the securities lent. There are no restrictions on the amount of loans that can be made. Substantially all security loans can be terminated on demand by either the State Treasurer or the borrower.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

2. Deposits and Investments (Continued)

C. Securities Lending Transactions (Continued):

Securities received as collateral are not recorded in either the Treasurer's or the Authority's financial statements because the State Treasurer cannot pledge or sell the collateral securities unless the borrower defaults.

The cash collateral received is invested by the custodian agent and held in a separate account in the name of the State Treasurer. The average maturities of the cash collateral investments do not differ materially from the average maturity of the securities lent. While cash can be invested in securities ranging from overnight up to two years, the custodian agent is not permitted to make investments where the weighted average maturity of all investments exceeds 90 days. At June 30, 1999 and 1998, the weighted average maturity of unmatched investments was less than one month.

At June 30, 1999 and 1998, the State Treasurer had no credit risk exposure to borrowers and incurred no losses during the years ended June 30, 1999 and 1998, related to these transactions. The securities custodian is contractually obligated to the Treasurer for certain conditions, including indemnity on a default by the borrowers to return securities and on a failure by the borrowers to maintain collateral with the securities custodian agent equal to 100% of the market value of the securities lent.

The Authority does not directly engage in security lending transactions; however, it deposits certain funds with the State Treasurer's investment pools which do participate in securities lending activities. In accordance with the statement, the Treasurer's Office allocates a prorata share back to the individual entities owning the funds. The Authority recognizes its portion of securities lending transactions that were held in the State Treasurer's "Securities Lending Collateral Investment Pool" as an asset and equal liability amount as "Obligations Under Securities Lending Transactions." Similarly, the allocated portion of the income and costs arising from pooled securities lending transactions is reported under "Investment Earnings" and "Interest". Under this method there is no effect on beginning or ending fund balances.

3. Receivables

The gross student loan receivables and related allowances for service cancellations and doubtful accounts at June 30, 1999, were:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
Gross Student Loan Receivables	\$ 631,285,934	\$ 82,100,669	\$ 549,185,265
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>30,804,500</u>	<u>6,728,504</u>	<u>24,075,996</u>
Net Receivables	<u>\$ 600,481,434</u>	<u>\$ 75,372,165</u>	<u>\$ 525,109,269</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

3. Receivables (Continued)

The gross student loan receivables and related allowances for service cancellations and doubtful accounts at June 30, 1998, were:

	<u>Total</u>	<u>Current</u>	<u>Non-Current</u>
Gross Student Loan Receivables	\$ 487,510,092	\$ 43,505,740	\$ 444,004,352
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>28,345,000</u>	<u>6,288,696</u>	<u>22,056,304</u>
Net Receivables	<u>\$ 459,165,092</u>	<u>\$ 37,217,044</u>	<u>\$ 421,948,048</u>

4. Pension Plans

A. Retirement Plans:

Each permanent full-time employee, as a condition of employment, is a member of either the Teachers' and State Employees' Retirement System of North Carolina or the Optional Retirement Program.

The Teachers' and State Employees' Retirement System is a multiple-employer, cost sharing defined benefit pension plan which is administered by the North Carolina State Treasurer. Additional detail information about the System can be located in the State of North Carolina's Comprehensive Annual Financial Report. Employees contributed 6% of gross wages and the Authority contributed, for pension benefits, 8.15% and 7.78% of covered wages for the years ended June 30, 1999 and 1998, respectively. The Authority has no pension plan obligations beyond the matching already paid into the System.

The Optional Retirement Program (Program) is a defined contribution retirement plan which provides retirement benefits with options for payments to beneficiaries in the event of the participant's death. Administrators of the Authority may join the Program instead of the Teachers' and State Employees' Retirement System. The Program is administered by the privately-operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA-CREF). Participant eligibility and contributory requirements are established by General Statute 135-5.1. Participants contributed 6% of their salary and the Authority matched with a 6.84% contribution for pension benefits for the years ended June 30, 1999 and 1998. The Authority assumes no liability other than its contribution.

Participants in the Program are vested after five years of service, but the administrator must return the value of both the participant's and the Authority's contributions if termination occurs prior to five years of service. The participant can invest in the TIAA or the CREF or both. The TIAA invests primarily in bonds and mortgages, while CREF invests in common stocks.

For the years ended June 30, 1999 and 1998, the Authority had a total payroll of \$1,259,370 and \$1,027,034, respectively of which \$1,144,665 and \$1,014,668, was covered under the Teachers' and State Employees' Retirement System and none was covered under the Optional Retirement Program. Total employee contributions for pension benefits for June 30, 1999 and 1998 were \$68,680 and \$60,880, respectively. Total employer contributions for pension benefits for June 30, 1999 and 1998 were \$93,290 and \$78,941, respectively. There were no contributions for the Optional Retirement Program.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

4. Pension Plans (Continued)

B. Deferred Compensation and Supplemental Retirement Income Plans:

IRS Section 457 Plan - The State of North Carolina offers its permanent employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. All costs of administering and funding the plan are the responsibility of the Plan. No costs are incurred by the Authority. All amounts, property and rights derived from deferred compensation and income earned on the deferred compensation are, until paid or made available to the employee or other beneficiary, solely the property and rights of the State of North Carolina, subject only to the claims of the State's general creditors. The State believes that it is very unlikely that it will use these assets to satisfy the claims of general creditors in the future. The voluntary contributions by employees amounted to \$1,240 and \$391, for the years ended June 30, 1999 and 1998, respectively.

IRS Section 401(k) Plan - All members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program are eligible to enroll in the Supplemental Retirement Income Plan created under Internal Revenue Code Section 401(k). All costs of administering the plan are the responsibility of the plan participants. No costs are incurred by the Authority. There were no voluntary contributions by employees for the years ended June 30, 1999 and 1998.

IRS Section 403(b) and 403(b)(7) Plans - All permanent Authority employees who are at least half-time can participate in tax sheltered annuity plans created under Internal Revenue Code Sections 403(b) and 403 (b)(7). The employee's eligible contributions, made through salary reduction agreements, are exempt from federal and state income taxes until the annuity is received or the contributions are withdrawn. These plans are exclusively for employees of universities and certain charitable and other non-profit institutions. All costs of administering and funding these plans are the responsibility of the plans. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$5,172 and \$8,520 for the years ended June 30, 1999 and 1998, respectively.

5. Post-Employment Benefits

A. Health Care:

The Authority participates in state administered programs which provide health care benefits to permanent employees working at least three-fourths time and to retirees. Additional detailed information about these programs can be located in the State of North Carolina's Comprehensive Annual Financial Report. The Authority contributes 2% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for retiree health care benefits. For the fiscal years ended June 30, 1999 and 1998, the Authority's total contribution for retiree health care benefits was \$22,893 and \$20,293, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its contribution.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

5. Post-Employment Benefits (Continued)

B. Long-Term Disability:

The Authority participates in the Disability Income Plan of North Carolina (the Plan). The Plan provides disability income to eligible participants. Eligible participants are employees that are members of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Additional detailed information about the Plan can be located in the State of North Carolina's Comprehensive Annual Financial Report. The Authority contributed .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program for the years ended June 30, 1999 and 1998. For the fiscal years ended June 30, 1999 and 1998, the Authority's total contribution to the Plan was \$5,952 and \$5,276, respectively. The Authority assumes no liability for long-term disability benefits under the Plan other than its contribution.

6. Insurance

Physical plant and equipment used by the Authority and reported on the balance sheet are owned by the State of North Carolina. To provide financial protection for this ownership equity in assets, the State maintains a State Property Fire Insurance Fund as self-insurance against losses which might occur to state-owned property. This fund is administered by the North Carolina Department of Insurance and is maintained without direct cost to individual State agencies. Extended coverage insurance is available at a cost to electing agencies.

7. Lease Obligations

The Authority is obligated for annual rental payments under various noncancelable long-term lease agreements for office facilities. Annual rental of these office facilities included in the determination of net income was \$19,887 for each of the years ended June 30, 1999 and 1998. The minimum lease commitments during years subsequent to the balance sheet date are as follows:

<u>Fiscal Years</u>	<u>Amounts</u>
1999 - 2000	\$ 19,887
2001 - 2002	1,657

8. Fixed Assets

A summary of changes in the fixed assets for the year ended June 30, 1999, is presented as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 1999</u>
Office Equipment	\$ 209,637	\$ 99,077	\$ 11,241	\$ 297,473
EDP Equipment	807,201	360,350		1,167,551
Other Equipment	49,486	65,830		115,316
Total Fixed Assets	<u>\$ 1,066,324</u>	<u>\$ 525,257</u>	<u>\$ 11,241</u>	1,580,340
Less: Accumulated Depreciation				<u>606,821</u>
Net Fixed Assets				<u>\$ 973,519</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

8. Fixed Assets (Continued)

A summary of changes in the fixed assets for the year ended June 30, 1998, is presented as follows:

	Balance July 1, 1997	Additions	Deletions	Balance June 30, 1998
Office Equipment	\$ 167,897	\$ 41,740	\$	\$ 209,637
EDP Equipment	774,697	32,504		807,201
Other Equipment	49,486			49,486
Total Fixed Assets	<u>\$ 992,080</u>	<u>\$ 74,244</u>	<u>\$</u>	<u>1,066,324</u>
Less: Accumulated Depreciation				<u>435,791</u>
Net Fixed Assets				<u>\$ 630,533</u>

9. Note Payable

The Authority has a revolving line of credit with three banks. The amount of the line of credit at June 30, 1999 and 1998 was \$35,000,000 and \$93,000,000, respectively, and the outstanding balance was \$21,595,661 and \$84,825,537, respectively. This line is secured by pledged student loans. The proceeds of the line of credit are used for the funding of eligible student loans. Interest accrues at a variable rate as determined by the credit agreement. The line of credit expires on December 31, 1999 and is renewable by mutual agreement of the parties.

10. Bonds Payable

All bonds are obligations of the Authority and are not deemed to constitute a debt or liability of the State of North Carolina. The bonds are secured by federally insured student loans of the Authority. The bonds are summarized as follows:

	Balance July 1, 1998	Additions	Deletions	Balance June 30, 1999
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1995 Series A (Subordinate Lien):				
Serial Bonds:				
Due 7-01-01 (5.10%)	\$ 1,000,000	\$	\$	\$ 1,000,000
Due 7-01-02 (5.20%)	1,000,000			1,000,000
Due 7-01-03 (5.30%)	1,000,000			1,000,000
Due 7-01-04 (5.40%)	1,000,000			1,000,000
Due 7-01-05 (5.50%)	1,000,000			1,000,000
Term Bonds:				
Due 7-01-10 (6.05%)	5,350,000			5,350,000
Due 7-01-15 (6.30%)	7,000,000			7,000,000
	<u>17,350,000</u>	<u></u>	<u></u>	<u>17,350,000</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

10. Bonds Payable (Continued)

	<u>Balance July 1, 1998</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 1999</u>
Taxable Guaranteed Student Loan Revenue Bonds, 1995 Series B (Senior Lien): Auction Rate Bonds: Due 7-01-15 (Variable Rate)	\$ 121,900,000	\$	\$	\$ 121,900,000
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1996 Series C (Subordinate Lien) Term Bonds: Due 7-01-16 (6.35%)	25,000,000			25,000,000
Taxable Guaranteed Student Loan Revenue Bonds, 1996 Series D (Senior Lien): Treasury Indexed: Due 12-01-03 (Variable Rate)	47,363,925		12,637,275	34,726,650
Due 12-01-05 (Variable Rate)	<u>52,500,000</u>			<u>52,500,000</u>
	<u>99,863,925</u>		<u>12,637,275</u>	<u>87,226,650</u>
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1997 Series E (Senior Lien): Auction Rate Bonds: Due 7-01-27 (Variable Rate)	30,000,000			30,000,000
Taxable Guaranteed Student Loan Revenue Bonds, 1998 Series F (Senior Lien): Auction Rate Bonds: Series F-1 Due 7-01-28 (Variable Rate)		120,000,000		120,000,000
Series F-2 Due 7-01-28 (Variable Rate)		<u>120,000,000</u>		<u>120,000,000</u>
		<u>240,000,000</u>		<u>240,000,000</u>
Total	<u>\$ 294,113,925</u>	<u>\$ 240,000,000</u>	<u>\$ 12,637,275</u>	<u>\$ 521,476,650</u>

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

10. Bonds Payable (Continued)

The following schedule shows the annual debt service requirements to pay principal and interest on bonds outstanding at June 30, 1999:

Year	Total
2000	\$ 26,765,090
2001	26,765,090
2002	27,714,090
2003	27,662,090
2004	61,235,976
2005-2009	167,265,093
2010-2014	112,668,075
2015-2019	229,890,380
2020-2024	66,255,000
2025-2029	321,969,000
Total Requirements	1,068,189,884
Less Interest Requirements	546,713,234
Principal Requirements	\$ 521,476,650

The Taxable Guaranteed Student Loan Revenue Bonds, 1995 Series B (Senior Lien) are auction rate bonds due July 1, 2015. The Taxable Guaranteed Student Loan Revenue Bonds, 1996 Series D (Senior Lien) are Treasury Indexed Bonds due December 1, 2003 and December 1, 2005. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 1997 Series E (Senior Lien) are auction rate bonds due July 1, 2027. The Taxable Guaranteed Student Loan Revenue Bonds, 1998 Series F (Senior Lien) are auction rate bonds due July 1, 2028. All of the above series have a variable interest rate that changes monthly. The annual interest requirements in the schedule above were calculated using the rate in effect on June 30, 1999. Therefore, the debt service interest requirement on the 1995 Series B, 1996 Series D, 1997 Series E, and 1998 Series F bonds will change on a monthly basis throughout the life of the bonds.

11. Retained Earnings Restatement

It was determined that retained earnings needed to be restated at June 30, 1998, to reflect a liability for monies held by the Authority which are payable to the U.S. Department of Education at a future date. The restatement decreased both retained earnings and net income as previously reported at June 30, 1998, by \$5,458,176.

NORTH CAROLINA
STATE EDUCATION ASSISTANCE AUTHORITY
Notes To Financial Statements
June 30, 1999 and 1998

12. Transfers from and to the State Education Assistance Authority

The Authority, as a component unit of the State of North Carolina, regularly engages in transactions with other entities of primary government listed below. Resources reported as transfers in and out of the Authority during fiscal year 1998-1999 were comprised as follows:

	Unrestricted Current Funds	
	In	Out
UNC-General Administration	\$ 12,001,993	\$
State Treasurer's Office--Escheats	14,530,819	
Total	\$ 26,532,812	\$

Resources reported as transfers in and out of the Authority during the fiscal year 1997-1998 were comprised as follows:

	Unrestricted Current Funds	
	In	Out
UNC-General Administration	\$ 9,531,339	\$
State Treasurer's Office--Escheats	13,298,972	
Total	\$ 22,830,311	\$

13. Year 2000 Issue

The Year 2000 Issue is the result of shortcomings in many electronic data processing systems and other electronic equipment that may adversely affect the Authority's operations in the year 1999 and beyond.

The North Carolina State Education Assistance Authority has completed an inventory of computer systems and other electronic equipment that may be affected by the Year 2000 Issue and that are necessary to conducting the Authority's operations. Based on this inventory, the Authority is in the validation/testing stage. Per testing results and vender confirmations, it appears that all hardware and software are year 2000 compliant for the financial reporting systems. There are no contracts in effect at June 30, 1999, to make computer systems and other electronic equipment year 2000 compliant.

Because of the unprecedented nature of the Year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the Authority is or will be year 2000 ready, that the Authority's remediation efforts will be successful in whole or in part, or that parties with whom the Authority does business will be year 2000 ready.

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

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APPENDIX B

SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

The General Resolution contains various covenants and security provisions, certain of which are summarized below. Reference should be made to the General Resolution for a full and complete statement of its provisions.

Definitions of Terms

“Account or Accounts” shall mean one or more of the separate accounts which are established within Funds created pursuant to the General Resolution and except when the context requires otherwise, the Rebate Fund.

“Accountant's Certificate” shall mean an opinion signed by an independent certified public accountant or firm of certified public accountants of recognized standing (who may be the certified public accountant or firm of certified public accountants who regularly audit the books and accounts of the Authority or the Foundation) selected from time to time by the Authority, satisfactory to the Trustee.

“Acquired Program Obligation” shall mean any Guaranteed Loan, or any note evidencing the same, owned by the Authority, the Foundation or other Eligible Lender, the making or purchase of which by the Authority, directly or indirectly, was financed with proceeds from Bonds, the income from which is excludable from gross income for federal income tax purposes, or funds replaced by proceeds from such Bonds.

“Act” shall mean Chapter 1180 of the Session Laws of North Carolina of 1965, as amended, being Sections 116-201 to 116-209.30, inclusive, of the General Statutes of North Carolina, as existing at the date of adoption of the General Resolution, or as thereafter amended.

“Annual Budget” shall mean the annual budgets, as amended or supplemented, for a particular Fiscal Year adopted, respectively, by the Authority and the Foundation under the General Resolution and filed with the Trustee as provided in the General Resolution.

“Authority” shall mean the State Education Assistance Authority, a political subdivision of the State of North Carolina.

“Authorized Denomination” shall mean such denominations as shall be authorized in any Series Resolution.

“Authorized Newspaper” shall mean a financial journal, printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five days in each calendar week, of general circulation in the Borough of Manhattan, City and State of New York or a newspaper of general circulation in the State.

“Authorized Officer” shall mean (i) in the case of the Authority, the Chairman or other designated officer of the Board of Directors and its Executive Director, and (ii) in the case of the Foundation, the Chairman of the Board of Trustees and its President.

“Bankruptcy Code” shall mean the United States Bankruptcy Code, as amended from time to time, or any successor law.

“Bond” or “Bonds” shall mean any North Carolina State Education Assistance Authority Guaranteed Student Loan Revenue Bonds of any Series authorized by an applicable Series Resolution and issued under the General Resolution.

“Bondholder”, or “Bondowner” or “Holder”, or “Holders of Bonds”, or any similar term (when used with reference to the Bonds) shall mean any person who shall be the registered owner of any Outstanding Bond.

“Cash Flow Certificate” shall mean a certificate prepared by or on behalf of the Authority setting forth, for the period extending from the date of such certificate to the latest maturity of the Bonds then outstanding, (i) all Revenues Available for Debt Service expected to be received during such period; (ii) the application of all such Revenues Available for Debt Service in accordance with the General Resolution; (iii) the resulting balances and parity ratio; and establishing under all assumptions and scenarios used for a cash flow analysis to accompany such certificate, that (a) anticipated Revenues Available for Debt Service will be at least sufficient to pay the principal of and interest on the Bonds when due and all other amounts payable under the General Resolution when due, and (b) at least \$100,000 will be maintained in the General Revenue Fund at all times while any Bond is Outstanding.

“Certificate” shall mean a document signed by an Authorized Officer attesting to or acknowledging the circumstances or other matters therein stated.

“Chairman” shall mean the Chairman of the Board of Directors of the Authority.

“Code” means the Internal Revenue Code of 1986, as amended from time to time or the Internal Revenue Code of 1954, as amended, as applicable. Each reference to a Section of the Code herein, shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such sections which are applicable to the Bonds or the use of the proceeds thereof.

“Continuing Disclosure Undertaking” shall mean, with respect to each Series of Bonds, that certain Continuing Disclosure Undertaking of the Authority set forth in the Series Resolution authorizing such Series.

“Costs of Issuance” shall mean the costs of issuing any Series of Bonds, including (without limitation) such costs as may be taken into account in computing the adjusted yield on such Bonds pursuant to the Code and applicable Rulings of the Commissioner of Internal Revenue issued thereunder.

“Cost of Issuance Account” shall mean the account so designated which is established pursuant to the General Resolution.

“Counsel's Opinion” shall mean an opinion in writing, including supplemental opinions thereto, signed by such attorney or firm of attorneys of recognized national standing in the field of law relating to municipal bonds and municipal finance as may be selected by the Authority.

“Debt Service” shall mean, with respect to any particular Fiscal Year and any particular Series of Bonds, an amount equal to the sum of all interest payable on such Bonds and any Principal Installment in respect of such Bonds which shall be due and payable at any time from the second day of such Fiscal Year to the first day of the ensuing Fiscal Year, inclusive.

“Debt Service Reserve Fund” shall mean the Fund so designated which is created by the General Resolution.

“Debt Service Reserve Requirement” shall mean, as of any particular date of calculation, the sum of the amounts designated for each Series of Bonds in the Series Resolution related thereto as the “Debt Service Reserve Requirement” in respect of such Series; provided, however, that in no event shall the Debt Service Reserve

Requirement designated for a Series of Bonds be less than (i) 3% of the principal amount of all the Bonds of such Series, if the Bonds bear interest at variable rates of interest, or (ii) 6 months' interest on the Bonds of such Series if the Bonds bear interest at fixed rates of interest. The Debt Service Reserve Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments or any combination of the foregoing, as the Authority may determine.

“Debt Service Fund” shall mean the Fund so designated which is created by the General Resolution.

“Default Payment” shall mean moneys received, realized or recovered through proceedings taken by the Authority or the Foundation in the event of default in respect of any Guaranteed Loan or in respect of any insurance on or guarantee with respect to any Guaranteed Loan, including moneys received pursuant to a contract of insurance in respect of any Guaranteed Loan.

“Defeasance Obligations” shall mean and include any of the following securities, if and to the extent they are at the time legal for investment, at the direction of the State Treasurer, of funds of the Authority: non-callable direct obligations of, or obligations the timely payment of principal and interest on which is fully and unconditionally guaranteed by, the United States of America.

“Depository” shall mean any bank, trust company, national banking association or savings and loan association selected by the Authority or the Trustee as a depository of moneys or securities held under the provisions of the General Resolution and may include the Trustee or any Paying Agent.

“Eligible Institution” shall mean any educational institution described as an eligible institution in the Higher Education Act of 1965, as amended, and also so described in the Act.

“Eligible Lender” shall mean (i) the Authority, (ii) the Foundation and (iii) all other entities described as eligible lenders in the Higher Education Act, which have in force a contract with the Authority providing for loan guarantees to be issued by the Authority to such entity under the Higher Education Act and the Act.

“Federal Agency” shall mean the United States of America, or any agency, department or instrumentality of the United States of America.

“Fiduciary or Fiduciaries” shall mean the Trustee and any successor, any Depository, any Paying Agent, or any of or all of them, as may be appropriate.

“Fiscal Year” shall mean each annual period which begins on July 1 in any calendar year and ends on June 30 in the following calendar year.

“Foundation” shall mean College Foundation, Inc., a private, not-for-profit corporation established under Chapter 55A of the General Statutes of North Carolina, acting in its capacity as an Eligible Lender or as agent of the Authority in administering certain components of the Student Loan Insurance Program, and its successors and assigns.

“Fund” or “Funds” shall mean one or more of the special trust funds which are created by the General Resolution.

“General Revenue Fund” shall mean the fund so designated which is created by the General Resolution.

“Guarantee Agency” shall mean the Authority acting in its capacity as a state guarantee agency under the Higher Education Act.

“Guaranteed Loan” shall mean an obligation acquired or to be acquired by the Authority or the Foundation with funds made available pursuant to the General Resolution which represents advances of money made by an Eligible Lender to or on behalf of a student attending or enrolled at an Eligible Institution, evidenced by one or more promissory notes, the payment of principal of and interest on which is insured by the Authority and reinsured as to principal amount and interest by the Secretary to the maximum extent then authorized under the Higher Education Act and agreements entered into by the Authority and the Secretary pursuant to the Higher Education Act; or such an obligation for which there is a commitment by the Secretary to so insure or by the Guarantee Agency and the Secretary to so insure and reinsure.

“Higher Education Act” shall mean the United States Higher Education Act of 1965, as amended, or any successor legislation pursuant to which programs are established for the direct federal insurance of student loans, reinsurance of loans (including Guaranteed Loans) insured by state guarantee agencies, and other purposes.

“Interest Account” shall mean the account so established within the Debt Service Fund by the General Resolution.

“Interest Payment Date” shall mean any date upon which interest on the Bonds of any Series shall be payable as specified in the applicable Series Resolution in accordance with the General Resolution.

“Interest Subsidy Payments” shall mean interest subsidy payments payable in respect to any Guaranteed Loans by the Secretary under Section 428 of the Higher Education Act.

“Investment Obligations” shall mean any of the following securities, if and to the extent the same are at the time legal for investment of moneys and funds held under the General Resolution:

(i) Direct obligations of the United States or obligations guaranteed as to full and timely payment both as to principal and interest by the United States;

(ii) General obligations of the State or other states of the United States provided that such obligations bear one of the two highest ratings of each of the nationally recognized rating services then maintaining a rating on any Bonds Outstanding;

(iii) General obligations of cities, counties and special districts in the State provided that such obligations bear one of the two highest long-term ratings of each of the nationally recognized rating services then maintaining a rating on any Bonds Outstanding;

(iv) Obligations of any company, other organization or legal entity incorporated or otherwise created or located within or without the United States if such obligations bear one of the two highest ratings of at least one nationally recognized rating service and do not bear a rating below the two highest by any nationally recognized rating service which rates the particular security;

(v) To the extent that the following do not bear a rating below the two highest by any nationally recognized rating service which rates the particular security and the full and timely payment thereof are guaranteed by the United States, obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Rural Economic and Community Development Administration, the United States Postal Service, the Export-Import Bank, the International Bank for Reconstruction and Development, the International Finance

Corporation, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the Student Loan Marketing Association.

(vi) Repurchase Agreements with respect to securities issued or guaranteed by the United States government or its agencies executed by a bank or trust company or by primary or other reporting dealers to the Federal Reserve Bank of New York, if:

(a) the obligations that are subject to such repurchase agreement are delivered (in physical or in book-entry form) to the Trustee, or any financial institution serving as custodian for the Trustee, provided that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred and two percent (102%) of the repurchase price, and, provided further, that the financial institution serving either as Trustee or as custodian shall not be the provider of the repurchase agreement;

(b) a valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee;

(c) such securities are free and clear of any adverse third party claims; and

(d) a Counsel's Opinion is delivered to the Authority providing that the repurchase agreement complies with applicable provisions of State law regarding the investment of funds.

(vii) To the extent that the following do not bear a rating below the two highest by any nationally recognized rating service which rates the particular security, savings certificates issued by any savings and loan association organized under the laws of the State or by any federal savings and loan association having its principal office in the State; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State be fully collateralized; provided that the rate of return or investment yield may not be less than that available in the market on United States government or agency obligations of comparable maturity;

(viii) To the extent that the following do not bear a rating below the two highest by any nationally recognized rating service which rates the particular security, certificates of deposit issued by banks organized under the laws of the State, or by any national bank having its principal office in the State; provided that any principal amount of such certificate in excess of the amount insured by the federal government or any agency thereof be fully collateralized; provided that the rate of return or investment yield may not be less than that available in the market on United States government or agency obligations of comparable maturity;

(ix) To the extent that the following do not bear a rating below the two highest by any nationally recognized rating service which rates the particular security, deposits in any savings and loan association organized under the laws of the State or any federal savings and loan association having its principal office in the State; provided that any moneys invested in such deposits in excess of the amount insured by the federal government or any agency thereof, or by a mutual deposit guaranty association authorized by the Administrator of the Savings Institutions Division of the Department of Commerce of the State, be fully secured by surety bonds, or be fully collateralized;

(x) Prime quality commercial paper bearing the highest rating of each nationally recognized rating service maintaining a rating on any Bonds Outstanding;

(xi) To the extent that the following do not bear a rating below the two highest by any nationally recognized rating service which rates the particular security, bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided that the accepting bank or its holding company is (a) incorporated in the State and (b) has outstanding publicly held obligations bearing the highest rating of at least one nationally recognized rating service and not bearing a rating below the highest by any nationally recognized rating service which rates the particular obligations; and

(xii) Asset-backed securities (whether considered debt or equity) provided they bear the highest rating of each nationally recognized rating service maintaining a rating on any Bonds Outstanding.

“Issue Date” shall mean, with respect to Bonds of a particular Series, the date specified and determined by the Series Resolution authorizing such Bonds.

“Loan Account” shall mean the account of that name established in the Program Fund by the General Resolution.

“Mandatory Sinking Fund Installment” shall mean the principal amount of Bonds of all Series which pursuant to the applicable Series Resolutions the Authority is unconditionally required (except as provided in the General Resolution) to redeem on any particular date (such that failure to redeem such principal amount is, regardless of the availability of moneys therefor, an Event of Default).

“Operating Costs” shall mean, all of the Authority's expenses in carrying out and administering the Student Loan Finance Program under the General Resolution and shall include, without limiting the generality of the foregoing, Servicing Fees, salaries, acquisition and servicing fees (other than Servicing Fees), supplies, utilities, mailing, labor, materials, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, Rating Agency fees, any credit or liquidity facility fees and expenses, fees and expenses, if any, incurred in remarketing the Bonds, fees and expenses of the Fiduciaries, Costs of Issuance not otherwise paid or provided for from the proceeds of Bonds, payment of the Rebate Amount referred to in the General Resolution, travel, payments for pension, thrift savings, retirement, health and hospitalization, and life and disability insurance benefits, all to the extent properly allocable to a financing under the General Resolution.

“Operating Fund” shall mean the fund so designated which is created by the General Resolution.

“Operating Fund Requirement” shall mean as of any date, an amount equal to the Operating Costs of the Authority, excluding Servicing Fees, for the current month and such additional amount as the Authority deems appropriate, but in no event, more than four months of Operating Costs in total as reflected by the Annual Budget.

“Other Federal Benefits” shall mean all payments (including interest payments) now or hereafter provided by law, other than Default Payments, to be paid by the Secretary or any other Federal Agency to a holder of student loans, less any repayments thereof that may be required under contracts for such payments or as a condition for their receipt.

“Outstanding” when used with reference to any Bonds, shall mean, as of any date, all Bonds theretofore or then being authenticated and delivered under the General Resolution except:

(i) any Bonds canceled by the Trustee at or prior to such date;

(ii) Bonds (or portions thereof) for the payment of which there shall be held in trust under the General Resolution (whether at or prior to maturity) (a) cash, equal to the principal amount or Redemption Price thereof, with interest to the date of maturity, or (b) Defeasance Obligations;

(iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to the General Resolution; and

(iv) Bonds deemed to have been paid as provided in the General Resolution.

“Paying Agent” shall mean any bank with trust powers or trust company so designated pursuant to the General Resolution, and its successor or successors hereafter appointed, as paying agent for any Series of Bonds.

“Pledged Assets” shall mean (i) the Guaranteed Loans; (ii) interest payments with respect to Guaranteed Loans made by or on behalf of borrowers; (iii) Recoveries of Principal; (iv) any applicable Special Allowance Payments; (v) any applicable Interest Subsidy Payments; (vi) all moneys and securities from time to time held by the Trustee under the terms of the General Resolution (excluding monies and securities held, or required to be deposited, in the Rebate Fund) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the General Resolution.

“Principal Installment” shall mean, as of the date of calculation and with respect to any Series of Bonds Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date (whether at a stated maturity date or a date fixed for redemption prior to a stated maturity date) for which no Mandatory Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the General Resolution) of any Mandatory Sinking Fund Installments in a principal amount equal to said unsatisfied balance of such Mandatory Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Mandatory Sinking Fund Installments due on such future date, plus such applicable redemption premiums, if any.

“Principal Installment Date” shall mean any date upon which any Principal Installment on Bonds of any Series shall be due and payable pursuant to the applicable Series Resolution.

“Program Fund” shall mean the fund established by the General Resolution.

“Rating Agency or Rating Agencies” means any of Standard & Poor's Ratings Group, Moody's Investors Service, Inc., Fitch IBCA, Inc. (or the successor to any) or any other generally recognized rating agency to the extent any such agency has been requested in writing by the Authority to issue a rating on the Bonds and such agency has issued and continues to apply a rating on such Bonds at the time in question.

“Rebate Fund” shall mean the Rebate Fund authorized pursuant to the General Resolution.

“Record Date” shall mean such date as shall be determined in the applicable Series Resolution with respect to payments to be made thereunder.

“Recoveries of Principal” shall mean all amounts received in respect of payment of principal on Guaranteed Loans held by the Authority, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from the guarantee, or from the sale, assignment or other disposition of a Guaranteed Loan.

“Redemption Price” shall mean the total of principal, premium (if any) and interest due on any Bond redeemed pursuant to any applicable redemption provision of the General Resolution and any Series Resolution.

“Refunding Bonds” shall mean all Bonds, whether issued in one or more Series, authenticated and delivered pursuant to Section 208 of the General Resolution.

“Reserve Alternative Instrument” shall mean an insurance policy or surety bond or irrevocable letter of credit or guaranty deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Debt Service Reserve Requirement. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account and the Principal Account in order to provide for the timely payment of interest and principal (whether at maturity or to pay a Mandatory Sinking Fund Installment therefor). The provider of a Reserve Alternative Instrument shall be (a) an insurer that has been assigned either (i) one of the two highest policyholder ratings accorded insurers by A.M. Best & Co. or any comparable service or (ii) for bonds insured by the provider of the Reserve Alternative Instrument, a rating by one of the Rating Agencies in one of the two highest rating categories (without regard to gradations such as “plus” or “minus” of such categories) or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which have been assigned the highest rating category by one of the Rating Agencies.

“Reserve Trust Fund” shall mean the trust fund authorized under Section 116-209 of the Act.

“Revenues Available for Debt Service” shall mean (i) interest payments with respect to Guaranteed Loans made by or on behalf of borrowers; (ii) Recoveries of Principal; (iii) any applicable Special Allowance Payments; (iv) any applicable Interest Subsidy Payments; and (v) all moneys and securities from time to time held by the Trustee under the terms of the General Resolution (excluding moneys and securities held, or required to be deposited, in the Rebate Fund).

“Secretary” shall mean the United States Secretary of Education, or any other officer, board, body, commissioner or agency succeeding to the functions thereof under the Higher Education Act.

“Senior Lien Bonds” shall mean any Bonds so designated in the applicable Series Resolution authorizing such Senior Lien Bonds.

“Series” shall mean all of the Bonds authenticated and delivered on original issuance authorized by a given Series Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as herein provided, regardless of variations in maturity, interest rate, Mandatory Sinking Fund Installments, or other provisions.

“Series Resolution” shall mean a resolution of the Authority authorizing the issuance of a Series of Bonds in accordance with the terms and provisions of the General Resolution, adopted by the Authority in accordance with the General Resolution.

“Servicing Fees” shall mean the fees payable by the Authority to the Foundation to cover, *inter alia*, the Foundation's reasonable and necessary expenses for operation and administration of the Student Loan Finance Program under the terms of that certain Contract, between the Authority and the Foundation, dated as of September 1, 1972, as supplemented, not to exceed in any year one and one-half percent (1½%) of the average outstanding principal amount of the Guaranteed Loans, computed in accordance with the average daily balance method. The fees shall cover, but are not limited to, the Foundation's reasonable and necessary expenses for operation and administration of the Student Loan Finance Program including those expenditures made for the purchase of furniture and equipment as well as those expenditures associated with the operation and maintenance of the Foundation's facilities. Adjustments to the Servicing Fee which would be necessary as a result of the annual financial audit will be made within 135 days of the last day of the Foundation's Fiscal Year.

“Special Allowance Payments” shall mean special allowance payments authorized to be made by the Secretary in respect of the Guaranteed Loans pursuant to Section 438 of the Higher Education Act or similar allowances authorized from time to time by federal law or regulation.

“State” shall mean the State of North Carolina.

“State Treasurer” shall mean the State Treasurer of North Carolina.

“Statutory Loan Fund” shall mean the fund directed to be established by Section 116-209.3 of the Act.

“Statutory Sinking Fund” shall mean the fund denominated the Sinking Fund referred to in Section 116-209.4 of the Act.

“Student Loan Finance Program” shall mean and include any acts or things done by the Authority or the Foundation pursuant to the Act and the General Resolution for the purpose of making available Guaranteed Loans pursuant to the Act.

“Student Loan Insurance Program” shall mean the guarantee program of the Authority authorized by the Act.

“Subordinate Lien Bonds” shall mean any Bonds that are so designated in the Series Resolution authorizing such Bonds.

“Supplemental Resolution” shall mean any resolution supplemental to or amendatory of the General Resolution adopted by the Authority in accordance with the General Resolution.

“Tax Exemption Certificate and Agreement” shall mean a certificate and agreement delivered in connection with the issuance of each Series of Bonds issued under the authorization of Section 144(b) of the Code, to establish the Authority's continuing compliance with Section 148 of the Code and all regulations applicable thereto.

“Trustee” shall mean The Bank of New York as successor to First Union National Bank of North Carolina and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to the General Resolution.

Funds and Accounts

The General Resolution creates the following Funds and Accounts:

- (1) Program Fund
 - Loan Account¹
 - Tax Exempt Bond Subaccount
 - Taxable Bond Subaccount
 - Cost of Issuance Account

- (2) General Revenue Fund²

¹The Loan Account together with the Operating Fund are within the Loan Fund referred to in Section 116-209.3 of the Act.

²The General Revenue Fund, together with certain other Funds (the Debt Service Fund, the Debt Service Reserve Fund, and the Revenue Reconciliation Fund) are within the Sinking Fund referred to in Section 116-209.4 of the Act.

- (3) Debt Service Fund
 - Interest Account
 - Principal Account
 - Equity Account
- (4) Debt Service Reserve Fund
 - Senior Lien Account
 - Subordinate Lien Account
- (5) Operating Fund
- (6) Revenue Reconciliation Fund
- (7) Rebate Fund³

Each of the above Funds and Accounts, and any other Accounts which may be established within such Funds from time to time, shall be held and maintained by the Trustee pursuant to the provisions of the General Resolution and, excepting only the Rebate Fund, are at all times pledged for the payment of the principal of and interest on the Bonds.

Application of Bond Proceeds; Program Fund

The proceeds, exclusive of accrued interest, of any Series of Bonds, after the deposit, if any, to meet a Debt Service Reserve Requirement, are required to be deposited in the Program Fund as specified in the applicable Series Resolution. Accrued interest received upon delivery of the Bonds must be deposited in the Interest Account within the Debt Service Fund. Amounts are required to be deposited and maintained in the Debt Service Reserve Fund sufficient to meet the Debt Service Reserve Requirement.

Under the General Resolution, the Trustee is required to establish within the Program Fund a Cost of Issuance Account and a Loan Account. From the proceeds of each Series, there will be deposited in the Cost of Issuance Account such costs of issuing the Series of Bonds as are not otherwise provided for. The Trustee will withdraw moneys from the Cost of Issuance Account from time to time for the purpose of paying such costs of issuance, and moneys so withdrawn and paid shall be free and clear of the pledge created by the General Resolution.

The remainder of the proceeds of any Series of Bonds will be deposited into either the Tax Exempt Bond Subaccount or the Taxable Bond Subaccount of the Loan Account. Moneys in the Loan Account will be used to make or acquire Guaranteed Loans under the Student Loan Finance Program. The Authority may at any time direct the Trustee to transfer any moneys in the Loan Account to the Principal Account of the Debt Service Fund. In the event the Student Loan Finance Program is discontinued by law or otherwise, any moneys remaining in the Loan Account, after providing for commitments to finance Guaranteed Loans, will be transferred to the Principal Account of the Debt Service Fund.

General Revenue Fund

All moneys received by or on behalf of the Authority or the Foundation as Pledged Assets, net of Servicing Fees deducted by the Foundation, must be deposited to the credit of the General Revenue Fund. The Trustee is

³While technically within the statutory Loan Fund, the Rebate Fund is established for the sole purpose of fulfilling the Authority’s rebate liability under Section 148 of the Code.

required to make monthly transfers from the moneys in the General Revenue Fund to the various Funds and Accounts established under the General Resolution.

Rebate Fund

Within 90 days after the anniversary date of each Series of Bonds issued under the General Resolution with the intention that the interest thereon be excluded from the gross income of the owners thereof, the Authority is required by the terms of the General Resolution to file with the Trustee a report setting forth the "Rebate Amount" as defined in the General Resolution. All such Rebate Amounts must be deposited into the Rebate Fund. Moneys in the Rebate Fund, including investment earnings thereon, if any, are not subject to the pledge of the General Resolution and may be applied solely to pay amounts owed to the United States pursuant to Section 148 of the Code or to carry out a program of loan forgiveness satisfying the requirements of Section 148 of the Code.

Investment of Funds and Accounts

The General Resolution requires or permits investments of moneys in each Fund and Account, consistent with the required uses of such moneys, in Investment Obligations. Investment Obligations means certain designated securities, if and to the extent the same are at the time legal for investment of moneys and funds held under the General Resolution. Investment Obligations are deemed to be part of the Fund or Account for which purchased, and gains and losses on Investment Obligations are to be credited or charged to the Fund or Account for which the Investment Obligations were purchased. Interest earned on Investment Obligations in all Funds and Accounts is to be deposited in the General Revenue Fund.

Conditions Precedent to Delivery of a Series of Bonds

The Bonds of each Series may be authenticated by the Trustee and delivered by the Authority only upon receipt of:

- (i) an opinion of counsel to the effect that, among other things, the Bonds of such Series are valid and binding obligations of the Authority, enforceable in accordance with their terms and the terms of the General Resolution;
- (ii) a written order of the Authority as to the delivery of such Bonds;
- (iii) a certified copy of the Series Resolution authorizing such Series;
- (iv) the amount of the proceeds of such Series to be deposited in any Fund or Account held by the Trustee;
- (v) certain certificates (1) as to the anticipated need for Guaranteed Loans to be made from the proceeds of Bonds of such Series except in the case of an issue of refunding Bonds and (2) to the effect that the Authority is not in default under the General Resolution; and
- (vi) the written consent of the Foundation to the issuance of the Bonds of such Series.

No additional Series of Bonds may be authenticated and issued under the General Resolution unless, in addition to the foregoing requirements, the Authority provides the Trustee with (i) a certificate to the effect that anticipated Revenues Available For Debt Service are anticipated to be fully sufficient to pay in each succeeding Fiscal Year the Debt Service and Operating Costs for such Fiscal Year, (ii) written evidence from each Rating

Agency that the issuance of such Bonds shall not result in a reduction or withdrawal of the then current rating on any Bonds Outstanding and (iii) a Certificate of an Authorized Officer of the Authority establishing that, following the issuance of such proposed Series of Bonds (and taking into account the liability created thereby), the ratio of Pledged Assets over total liabilities of the Authority attributable to all like Bonds to be Outstanding following the issuance of such proposed Series will be sufficient to maintain an investment grade rating acceptable to the Authority on both Senior Lien Bonds and Subordinate Lien Bonds from a Rating Agency.

Issuance of Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered to refund all or any Bonds Outstanding under the General Resolution or under another resolution of the Authority subject to the following requirements:

- (a) if applicable, the Authority shall have given irrevocable instructions to the Trustee to give due notice of redemption of all the Bonds to be redeemed on a specified redemption date;
- (b) moneys or Defeasance Obligations sufficient to pay the principal or the applicable Redemption Price of and interest due or to become due on the Bonds to be refunded shall be deposited in trust for such purpose; and
- (c) the Trustee shall furnish to the Authority at the time of delivery of the Refunding Bonds, a certificate stating that it holds in trust the moneys and/or Defeasance Obligations required to effect the payment in full of the Outstanding Bonds being refunded, and accrued interest thereon.

Certain Covenants Relating to Guaranteed Loans

The Authority may not make or purchase under the General Resolution any student loan that is not fully insured by the Authority for principal and interest and reinsured by the Secretary, or for which there is not a commitment by the Authority and the Secretary to so insure and reinsure. The Authority may not purchase any Guaranteed Loan unless authorized in a Series Resolution to apply proceeds of the Series of Bonds issued pursuant thereto to the purchase of Guaranteed Loans or unless, in the case of a loan previously sold, it is required or permitted to repurchase such loan pursuant to any agreement or agreements relating to such sale.

The Authority will (1) diligently enforce, and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of Guaranteed Loans owned by it, (2) promptly comply with all requirements necessary to entitle it to receive full insurance benefits in the event of any default under the terms of a Guaranteed Loan, and (3) diligently take all reasonable actions necessary to assure its continued receipt of Federal interest subsidy payments and Special Allowance Payments, if any, in respect of Guaranteed Loans owned by it.

Certain Other Covenants

Among other covenants made by the Authority and the Foundation, as agent of the Authority, in the General Resolution are those related to the following matters:

Accounts and Reports. The Authority and the Foundation, as agent of the Authority, are required to keep complete and accurate books of record and account relating to the Student Loan Finance Program and all Funds and Accounts established by the General Resolution, which are to be subject at all reasonable times to the inspection of the Trustee and the Holders of an aggregate of not less than 5% in principal amount of the Bonds of each Series then

Outstanding or their representatives duly authorized in writing. The Authority is also required to, following the close of each Fiscal Year, publish an annual report of its activities for the preceding year to the Governor and General Assembly of the State. Such an annual report shall set forth a complete operating and financial statement covering the operations of the Authority during the Year. A copy of each such annual report shall be mailed to each Bondholder who has filed his name and address with the Authority for such purpose.

Tax Covenant. (a) With respect to Bonds the interest on which is excluded from the gross income of the owners thereof pursuant to the authorization of Section 144(b) of the Code, the Authority covenants that it will not take any action or inaction, or fail to take any action, or permit any action to be taken on its behalf or cause or permit any circumstance within its control to arise or continue, with any such action or inaction that would adversely effect the exclusion from gross income for federal income tax purposes of the interest on the Bonds under Section 103 of the Internal Revenue Code of 1986. In furtherance of the foregoing covenants, the Authority covenants to comply with the tax certificate; (b) notwithstanding any other provision of the General Resolution to the contrary, including in particular Section 1101 thereof, the covenants contained in Section 609 of the General Resolution shall survive the defeasance or payment in full of the Bonds; (c) so long as and to the extent necessary to preserve the exclusion of interest on the Bonds from gross income for purposes of federal income taxes, the Authority will include in all program documentation a provision to the effect that no entity from which the Authority or the Foundation acquires Guaranteed Loans, nor any "related person" to such an entity within the meaning of Section 144 (a)(3) or Section 147(a) of the Code, shall at any time, pursuant to any arrangement, formal or informal, purchase and hold Bonds in an amount related to the amount of Guaranteed Loans to be acquired from such entity or related person. The Authority reserves the right to issue Bonds under the General Resolution, the income from which is includable in gross income for federal income tax purposes.

Budgets. At least 30 days prior to July 1 of each year, the Authority and the Foundation, as agent of the Authority, must each prepare and file with the Trustee a preliminary budget covering the fiscal operations of each in connection with the Student Loan Finance Program and the Student Loan Insurance Program, for the succeeding Fiscal Year, which budget shall be open to inspection by the Trustee and any Bondholder. The Authority must also prepare a summary of each such preliminary budget and mail a copy, at least 15 days prior to such July 1, to any Bondholder who shall have filed his name and address with the Authority for such purpose.

The Authority and the Foundation, as agent of the Authority, are each required to adopt an Annual Budget for its fiscal operations in connection with the Student Loan Finance Program and the Student Loan Insurance Program, covering such fiscal operations for the succeeding Fiscal Year. Such Annual Budget must be filed with the Trustee and such other officials of the State as may be required by law. The Annual Budget of the Authority must set forth at least the estimated Pledged Assets, estimated principal and interest due and payable on Bonds during the Fiscal Year and estimated Operating Costs. The Authority and the Foundation may file with the Trustee amendments of the Annual Budget of each for the remainder of the Fiscal Year. Copies of the Annual Budget must be available for inspection by any Bondholder.

Waiver of Laws. The Authority and the Foundation, as agent of the Authority, have covenanted not to insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of, any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the General Resolution, or in any Series or Supplemental Resolution or in the Bonds, and all benefit or advantage of such law or laws has been expressly waived by the Authority and the Foundation.

Personnel and Servicing of Student Loan Finance Program. The Authority has covenanted at all times to utilize competent and qualified personnel for the purpose of carrying out the Student Loan Finance Program.

Defaults and Remedies

Under the General Resolution, each of the following events is an “Event of Default”:

- (1) default by the Authority in the payment of any installment of interest on the Bonds, when due;
- (2) default by the Authority in the payment of principal of Bonds as they mature, or the Redemption Price thereof if Bonds have been duly called for redemption;

provided, however, that, while there are any Senior Lien Bonds Outstanding under the General Resolution, with respect to both clauses (1) and (2) failure to pay any installment of interest or principal on any Subordinate Lien Bonds (after the Trustee has drawn upon the Debt Service Reserve Fund - Subordinate Lien Account) shall constitute an Event of Default but such failure shall not give rise to the remedy of acceleration unless there is a corresponding failure to make timely payment of interest or principal on a Senior Lien Bond; provided, further that if moneys are available in the Equity Account or the Debt Service Reserve Fund-Subordinate Lien Account to make such payments, the Trustee must make the payments and failure to do so would constitute an Event of Default.

- (3) subject to certain opportunities to cure, failure or refusal by the Authority or the Foundation to comply with any provision of the Act or default in the performance or observance of any other of the covenants, agreements or conditions contained in the General Resolution, any Series or Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of 45 days after written notice thereof by the Trustee or the holders of not less than 5% in principal amount of the Outstanding Bonds.

The General Resolution provides that upon the happening and continuance of any event described in the foregoing clauses (1) or (2), the Trustee, independently, or the Holders of 25% or more in principal amount of Outstanding Bonds may jointly proceed, in their own names, to protect and enforce their rights by such of the following remedies as they deem most effectual:

- (a) enforce, by mandamus or other suit, action or proceedings at law or in equity, all rights of the Bondholders, including the right to require the Authority and the Foundation to receive and collect the revenues and other assets, including Pledged Assets, adequate to carry out the covenants and agreements as to, and pledge of, such revenues and assets, and to require the Authority and the Foundation, as agent of the Authority, to carry out any other covenant or agreement with Bondholders and to perform duties under the Act;
- (b) bring suit upon the Bonds;
- (c) require the Authority or the Foundation by action or suit to account as if it were the trustee of an express trust for the Bondholders;
- (d) enjoin by action or suit any acts or things which may be unlawful or in violation of the rights of the Bondholders;
- (e) except as limited with respect to Subordinate Lien Bonds, declare all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of not less than 25% in principal amount of the Holders of Outstanding Bonds, to annul such declaration and its consequences; and
- (f) in the event that all Bonds are declared due and payable, to sell all Guaranteed Loans, Investment Obligations and all other Pledged Assets to the extent necessary to effect their payment.

Upon the happening and continuance of any Event of Default described in clause (3), the Trustee shall have the discretion to do any of the following:

- (a) sell Guaranteed Loans if it is determined prior to such sale that the proceeds of such sale are sufficient to pay Bondholders the entire amount of principal of, premium, if any, and interest due; provided however, that no declaration of payment shall be given until the Trustee shall hold sufficient funds to effect such payment;
- (b) sell Guaranteed Loans without regard to the sufficiency of proceeds if 100% of the Bondholders approve such sale; or
- (c) continue to pay Debt Service in accordance with the terms of the General Resolution.

The Trustee shall give notice to any Rating Agency maintaining an outstanding rating of Bonds of the Authority of any Event of Default.

The General Resolution further provides that no Bondholder shall have any right to institute any action except as described above. Nothing in the General Resolution, however, may impair the right of any Bondholder to enforce payment of principal of and interest on his Bonds.

Modifications of the General Resolution and Outstanding Bonds

The General Resolution provides procedures whereby the Authority may amend the General Resolution by adoption of a Supplemental Resolution. Amendments of the respective rights and obligations of the Authority and the Bondholders may be made with the written consent of the Holders of not less than a majority in principal amount of the Outstanding Bonds. No such amendment, however, may (a) permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest, or permit a reduction in the principal amount thereof or the rate of interest thereon or (b) reduce the percentage of Bonds the consent of the holders of which is required to effect such amendment or (c) change the existing preferences or priorities of Bonds over any other Bonds or create any new preferences or priorities. Amendments may be made without the consent of Bondholders provided they are exclusively for purposes of further securing the Bonds, imposing further limitations on or surrendering rights of the Authority or curing ambiguities.

Notes and Other Obligations

The General Resolution provides that the Authority may issue notes, bonds and other obligations having such terms and secured by a pledge of such moneys or other assets of the Authority as the resolution authorizing the issue provides, but any pledge to the holders of such notes, bonds or other obligations of any Pledged Assets, Fund or Account created under the General Resolution or any other moneys or assets of the Authority pledged under the General Resolution shall be, and shall be expressed to be, subordinate in all respects to the pledge created under the General Resolution.

The Authority has reserved the right to make or finance student loans other than Guaranteed Loans provided that such program does not in any way jeopardize or impair the pledge or Pledged Assets and provided that a Counsel's Opinion to such effect is delivered to the Trustee.

Defeasance

All obligations of the Authority under the General and Series Resolutions, together with the pledge of Pledged Assets and all covenants of the Authority or the Foundation thereunder, shall be fully discharged and satisfied in the event that the Authority deposits with the Trustee moneys in an amount sufficient (or Defeasance Obligations) to pay when due the principal or applicable Redemption Price of, and interest on, all Outstanding Bonds until and at their maturity or any applicable Redemption Date or Dates. The sufficiency of such moneys or investments must be confirmed in a verification report of a certified public accountant. However, such verification report shall not be required in the event of a full cash defeasance or a current refunding of less than ninety days to maturity. Such deposit must be in an irrevocable trust and the moneys (or Defeasance Obligations) may not from the date of such deposit be applied to any other purpose. In the event that the amount of such deposit is determined by reference to the redemption of Bonds on any Redemption Date or Dates, irrevocable instructions must be given at the time of the deposit to call for redemption of such Bonds on such date or dates.

APPENDIX C

FORM OF PROPOSED BOND COUNSEL OPINION

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FORM OF PROPOSED BOND COUNSEL OPINION

(Dated date of Delivery)

State Education Assistance Authority
Research Triangle Park, North Carolina

Re: \$200,000,000 State Education Assistance Authority Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien)

Ladies and Gentlemen:

We have examined the Constitution and Statutes of the State of North Carolina (the “State”), a certified copy of the proceedings and other proofs relating to the authorization and issuance of the Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien) described above (the “2000 Series G Bonds (Senior Lien)”) of the State Education Assistance Authority (the “Authority”), a political subdivision of the State.

The 2000 Series G Bonds (Senior Lien) are issued by the Authority pursuant to:

- (i) Chapter 1180 of the Session Laws of North Carolina, 1965, as amended, being Section 116-201 to 116-209.30, inclusive of the General Statutes of North Carolina (the “Act”);
- (ii) “A General Resolution Providing for the Issuance and Sale of State Education Assistance Authority Guaranteed Student Loan Revenue Bonds, and Other Matters Relating Thereto” effective September 14, 1995 (the “General Resolution”); and
- (iii) “A Series Resolution Providing for the Issuance and Sale of Not Exceeding Two Hundred Million Dollars (\$200,000,000) State Education Assistance Authority Taxable Guaranteed Student Loan Revenue Bonds, 2000 Series G (Senior Lien); and Other Matters Relating Thereto” (the “2000 G Series Resolution”).

The General Resolution and the 2000 G Series Resolution as they may be amended from time to time are herein collectively called the “Resolutions,” and capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Resolutions.

The 2000 Series G Bonds (Senior Lien) are dated the date of their delivery and shall bear interest at the LIBOR Indexed Rate. The 2000 Series G Bonds (Senior Lien) are subject to Principal Reduction Payments in accordance with the applicable Targeted Amortization Schedule. Interest on the 2000 Series G Bonds (Senior Lien) is payable on each Interest Payment Date until maturity or earlier payment of such 2000 Series G Bonds (Senior Lien).

The 2000 Series G Bonds (Senior Lien) are not subject to optional redemption prior to maturity. The 2000 Series G Bonds (Senior Lien) are issuable as fully registered bonds in Authorized Denominations as provided in the 2000 G Series Resolution and are numbered in such fashion as to maintain a proper record thereof.

The 2000 Series G Bonds (Senior Lien) are issued to (i) finance Guaranteed Loans previously made from other available funds of the Authority advanced on an interim basis, including short-term lines of credit previously established with certain commercial banks, (ii) finance Guaranteed Loans made subsequent to the issuance of the 2000 Series G Bonds (Senior Lien); (iii) fund the Senior Lien Account of the Debt Service Reserve Fund; and (iv) pay certain Costs of Issuance.

The Authority has reserved the right to issue additional bonds on the terms and conditions, and for the purposes, stated in the Resolutions.

It is our opinion that:

1. The Authority is a duly created and validly existing political subdivision of the State with full power and authority to issue the 2000 Series G Bonds (Senior Lien) and to perform all of its obligations under the Resolutions.
2. The Authority has the right and power under the Act to adopt the Resolutions, the Resolutions have been duly and lawfully adopted by the Authority, constitute a contract between the Authority and the holders of the 2000 Series G Bonds (Senior Lien), are in full force and effect and are valid and binding upon the Authority and enforceable in accordance with their terms, except to the extent that the enforceability of the Resolutions may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights.
3. The Resolutions create a valid pledge of the Pledged Assets subject to the provisions of the Resolutions permitting application of moneys, rights and interests to the extent and under the conditions prescribed by the Resolutions.
4. The General Resolution permits the issuance of both Senior Lien Bonds and Subordinate Lien Bonds. The 2000 Series G Bonds (Senior Lien) are Senior Lien Bonds and will be issued and secured by a pledge of Pledged Assets, net of Servicing Fees, prior to the pledge securing Subordinate Lien Bonds issued by the Authority.
5. The 2000 Series G Bonds (Senior Lien) have been duly authorized, executed and delivered and constitute valid and binding special obligations of the Authority enforceable in accordance with their terms and the terms of the Resolutions, except to the extent that the enforceability of the 2000 Series G Bonds (Senior Lien) may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights. Such 2000 Series G Bonds (Senior Lien) are secured in the manner and to the extent prescribed by the Resolutions and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements set forth in the Resolutions with respect to Senior Lien Bonds.
6. The principal amount of the 2000 Series G Bonds (Senior Lien), together with the principal amount of Bonds, notes or other obligations of the Authority, do not exceed in the aggregate principal amount any limitation imposed by law.
7. The 2000 Series G Bonds (Senior Lien) shall not be deemed to constitute a debt, liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision thereof but shall be payable solely from the revenues and other funds provided therefor under the Resolutions.
8. The interest on the 2000 Series G Bonds (Senior Lien) is not excluded from the gross income of the owners thereof for federal income tax purposes.
9. The interest on the 2000 Series G Bonds (Senior Lien) is not subject to present taxation as income by the State. The 2000 Series G Bonds (Senior Lien) are free from taxation by the State or any local unit or political subdivision or other instrumentality of the State, excepting inheritance or gift taxes, income taxes on the gain from the transfer of the 2000 Series G Bonds (Senior Lien), and franchise taxes.

Very truly yours,
McNAIR LAW FIRM, P.A.

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