



**\$445,000,000**  
**State of North Carolina**  
**State Education Assistance Authority**  
**(A political subdivision of the State of North Carolina)**  
**Student Loan Backed Notes**  
**2011-1 Series**

consisting of

<u>Tranche</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price to Public</u>	<u>Stated Maturity Date</u>
A-1	\$ 98,000,000	3-month LIBOR plus 0.45%	99.86328%	January 25, 2021
A-2	127,000,000	3-month LIBOR plus 0.90%	99.13281%	January 26, 2026
A-3	220,000,000	3-month LIBOR plus 0.90%	93.90625%	October 25, 2041

This Offering Memorandum has been prepared by the State Education Assistance Authority to provide information on the above-referenced 2011-1 Notes being offered to potential investors.

Quarterly payments on the 2011-1 Notes will be made primarily from collections on a pool of student loans. Except after the occurrence of an Event of Default, funds will be allocated to provide for sequential payment of principal first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, and third on the A-3 Notes until paid in full. **All payments of principal of the 2011-1 Notes through The Depository Trust Company (“DTC”) will be treated by DTC, in accordance with its rules and procedures, as a “Pro Rata Pass-Through Distribution of Principal.”**

The 2011-1 Notes will be issued for the purposes of (i) refunding certain prior obligations of the Authority, (ii) funding deposits to certain funds and accounts and (iii) paying certain costs of issuance.

The 2011-1 Notes will be the only indebtedness issued and payable from the Trust Estate.

Credit enhancement for the 2011-1 Notes will include overcollateralization and amounts on deposit in certain funds and accounts in the Trust Estate.

The 2011-1 Notes will be special obligations of the Authority, the principal of and interest on which is payable only from and secured by the Trust Estate. **The 2011-1 Notes do not constitute a recourse debt or general obligation of the State of North Carolina or any political subdivision thereof, but are payable solely from the Trust Estate created by the 2011-1 General Resolution. 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 2011-1 Notes. The Authority has no taxing power.**

Potential investors should consider carefully the “RISK FACTORS” beginning on page 13 of this Offering Memorandum.

**RBC Capital Markets**  
(Sole Bookrunner)

**BofA Merrill Lynch**

**BB&T Capital Markets**

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 Offering Memorandum 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 Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy any securities other than the 2011-1 Notes offered hereby, nor shall there be any offer or solicitation of such offer or sale of the 2011-1 Notes in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. Neither the delivery of this Offering Memorandum nor the sale of any of the 2011-1 Notes 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. The Underwriters have provided the following sentence for inclusion in this Offering Memorandum: The Underwriters have reviewed the information in this Offering Memorandum in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information. The information contained herein is subject to change after the date of this Offering Memorandum, and this Offering Memorandum 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 2011-1 NOTES AT LEVELS ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.**

**INTERNAL REVENUE SERVICE CIRCULAR 230 NOTICE**

**TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, NOTEHOLDERS ARE HEREBY NOTIFIED THAT: (A) ANY DISCUSSION OF U.S. FEDERAL TAX ISSUES IN THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE RELIED UPON, AND CANNOT BE RELIED UPON BY NOTEHOLDERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED ON NOTEHOLDERS UNDER THE INTERNAL REVENUE CODE; (B) SUCH DISCLOSURE IS WRITTEN IN CONNECTION WITH THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) NOTEHOLDERS SHOULD SEEK ADVICE BASED ON THEIR PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

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## SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Offering Memorandum. The offering of the 2011-1 Notes to potential investors is made only by means of this entire Offering Memorandum. No person is authorized to detach this Summary Statement from this Offering Memorandum or otherwise use it without this entire Offering Memorandum. For the definition of certain terms used herein and a summary of certain provisions of the 2011-1 General Resolution, see “GLOSSARY OF CERTAIN DEFINED TERMS” in Appendix C hereto and “SUMMARY OF CERTAIN PROVISIONS OF THE 2011-1 GENERAL RESOLUTION” in Appendix D hereto.

### **Principal Parties and Dates**

#### Issuer and Guaranty Agency

State Education Assistance Authority (the “Authority”), a political subdivision of the State of North Carolina.

#### Servicer, Administrator, Originator, Custodian and Eligible Lender

College Foundation, Inc. (the “Foundation”).

#### Trustee and Paying Agent

The Bank of New York Mellon Trust Company, National Association (the “Trustee” or the “Paying Agent,” as applicable).

#### Backup Servicer

Nelnet Servicing, LLC

#### Issue Date

The Issue Date for the 2011-1 Notes is expected to be on or about March 8, 2011.

#### Distribution Dates

Interest on the 2011-1 Notes will be payable on July 25, 2011 and thereafter on the 25<sup>th</sup> day of October, January, April and July and if such date is not a Business Day, interest will be payable on the next succeeding Business Day (collectively, the “Distribution Dates” and each, a “Distribution Date”).

As used in this Offering Memorandum, Business Day means (i) for purposes of determining the LIBOR Rate, any day on which banks in New York, New York and London,

England are open for the transaction of international business; and (ii) for all other purposes, any day other than a Saturday, Sunday, legal holiday or any other day on which banks located in New York, New York or the city in which the office of the Trustee is located, are authorized or permitted by law or executive order to close.

#### Collection Periods

The collection periods will be three-month periods ending on the last day of each March, June, September and December. However, the initial collection period will begin on the Issue Date and end on June 30, 2011.

#### Interest Periods

The Initial Period for the 2011-1 Notes will begin on the Issue Date and end on July 24, 2011. Thereafter, each Interest Period will begin on a Distribution Date and end on the day immediately preceding the following Distribution Date.

#### Record Date

Principal of and interest on the 2011-1 Notes will be payable to the record owners thereof as of the close of business on the Business Day immediately preceding each Distribution Date.

#### Cutoff Date

The cutoff date for the Student Loan portfolio (the “Portfolio”) that will be transferred to the Trust Estate on the Issue Date will be on or about January 31, 2011 (the “Cutoff Date”). All loan revenues received with respect to such Financed Student Loan portfolio

after such date will be deposited in the Collection Fund. For the definition of “Student Loan,” see Appendix C “GLOSSARY OF CERTAIN DEFINED TERMS.”

The information presented in this Offering Memorandum relating to the Student Loans that are expected to become part of the Trust Estate on the Issue Date is as of the Cutoff Date.

## **Description of the 2011-1 Notes**

### General

The Authority is offering its \$445,000,000 Student Loan Backed Notes, 2011-1 Series (the “2011-1 Notes”) in three tranches.

### Authorized Denominations

\$100,000 and available for purchase in multiples of \$1,000 above such amount.

### Additional Notes

The 2011-1 General Resolution will not permit the issuance of any additional bonds, notes, or other evidences of indebtedness secured by the Trust Estate.

### Interest on the 2011-1 Notes

The 2011-1 Notes will bear interest from the Issue Date to the respective Stated Maturity Date at the following rates:

the A-1 Notes will bear interest at an annual rate equal to three-month LIBOR, except for the Initial Period, plus 0.45%.

the A-2 Notes will bear interest at an annual rate equal to three-month LIBOR, except for the Initial Period, plus 0.90%.

the A-3 Notes will bear interest at an annual rate equal to three-month LIBOR, except for the Initial Period, plus 0.90%.

The Trustee will determine the rate of interest on the 2011-1 Notes on the second Business Day prior to the start of the applicable Interest Period. Interest on the 2011-1 Notes will be calculated on the basis of the actual

number of days elapsed during the Interest Period divided by 360. For the Initial Period, the Authority or its agent will determine the LIBOR rate according to a formula described below in “DESCRIPTION OF THE 2011-1 NOTES - Interest Payments.” Interest accrued on the 2011-1 Notes will be paid on each respective Distribution Date.

### Principal Payments

Principal distributions on the 2011-1 Notes will be allocated thereto on the Distribution Dates as described below in “THE TRUST ESTATE - Flow of Funds.”

The 2011-1 Notes are subject to payments of principal, applied pro rata within each Tranche, to be made on Distribution Dates from amounts deposited to the credit of the Principal Account for such purpose.

Except after the occurrence of an Event of Default, funds will be allocated to provide for sequential payment of principal first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, and third on the A-3 Notes until paid in full.

See “THE 2011-1 NOTES – Principal Distributions” in this Offering Memorandum.

### Stated Maturity Date

The 2011-1 Notes will mature on the respective Stated Maturity Dates shown on the cover of this Offering Memorandum.

The Authority expects that the principal of each Tranche of the 2011-1 Notes will be paid prior to its Stated Maturity Date as a result of either:

- payments and prepayments on the Financed Student Loans; or
- the exercise by the Authority of its option to redeem the 2011-1 Notes in whole but not in part on any Distribution Date when the Pool Balance is 10% or less of the Initial Pool Balance.

“Pool Balance” means for any date the aggregate Principal Balance of all Financed Student Loans on that date plus accrued interest that is expected to be capitalized as authorized under the Higher Education Act.

“Initial Pool Balance” means \$470,506,529, which is the Pool Balance as of the Cutoff Date, of the Student Loans to become Financed on the Issue Date. The Initial Pool Balance consists of a principal balance of \$466,543,976 and accrued interest expected to be capitalized of \$3,962,553.

The expected weighted average lives and expected maturity dates for each Tranche of the 2011-1 Notes are set forth in Appendix G hereto. Appendix G also contains the assumptions utilized for calculating these expected weighted average lives and expected maturity dates, together with the projected remaining principal balance of each Tranche of the 2011-1 Notes as a percentage of the initial principal balance under various assumed prepayment scenarios. See Appendix G “PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES, AND EXPECTED MATURITIES OF THE 2011-1 NOTES AND PERCENTAGES OF ORIGINAL PRINCIPAL OF THE 2011-1 NOTES REMAINING AT CERTAIN QUARTERLY DISTRIBUTION DATES.”

## **Descriptions of the Authority and the Foundation**

### The Authority

The Authority, a political subdivision of 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 fostering student and parental loans; to finance student and parental loan obligations; and to issue revenue bonds and

notes for such purposes. The Authority’s program for financing Student Loans under the 2011-1 General Resolution is herein referred to as the “Student Loan Finance Program.” The Authority’s current website is [www.ncseaa.edu](http://www.ncseaa.edu).

### 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 General Statutes of North Carolina. The Foundation, since 1966, has served as the central loan originator and continues to serve as servicer for the holders of loans under the North Carolina Federal Family Education Loan Program (“NCFFELP”) and acts for the Authority in servicing and administering certain aspects of the NCFFELP.

### The Trust Estate

The 2011-1 Notes will be special obligations of the Authority, the principal of and interest on which is payable only from and secured by the Trust Estate. **The 2011-1 Notes do not constitute a recourse debt or general obligation of the State of North Carolina (the “State”) or any political subdivision thereof, but are payable solely from the Trust Estate created by the 2011-1 General Resolution. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2011-1 Notes. The Authority has no taxing power.**

The Trust Estate means, together with any proceeds, all rights, title and interest of the Authority to the following:

- the Financed Student Loans;
- interest payments with respect to Financed Student Loans made by or on behalf of borrowers;
- Recoveries of Principal;
- any Special Allowance Payments;
- all Interest Subsidy Payments;

- any Backup Servicing Agreement, any Guaranty Agreement and any Custodian Agreement;
- all moneys and securities from time to time held by the Trustee under the terms of the 2011-1 General Resolution in various Funds and Accounts (excluding moneys and securities held, or required to be deposited, in the Department Reserve Fund); and
- 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 2011-1 General Resolution.

See Appendix C “GLOSSARY OF CERTAIN DEFINED TERMS.”

All Student Loans refinanced with the proceeds of the 2011-1 Notes were originated by the Foundation in the normal course of business and are guaranteed by the Authority and reinsured by the Secretary to the maximum extent permitted by law by the Secretary as provided in the Higher Education Act and the regulations related thereto. See Appendix B “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” herein.

The pledge of the Trust Estate made in the 2011-1 General Resolution and the provisions, covenants, and agreements set forth in the 2011-1 General Resolution to be performed by the Authority will be for the equal benefit, protection, and security of the Noteholders.

### **The Refunding**

On the Issue Date, approximately \$401,727,167 of the proceeds from the sale of the 2011-1 Notes will be deposited to an escrow fund to defease all of the outstanding auction rate securities previously issued by the Authority and approximately \$22,000,000 of the proceeds from the sale of the 2011-1 Notes will be used to retire certain privately placed bonds issued by

the Authority. As a result, Student Loans having an aggregate principal balance of approximately \$466,543,976 as of the Cutoff Date will be transferred to the Trust Estate.

### **Description of Funds and Accounts**

#### The Program Fund

On the Issue Date, a portion of the proceeds of the 2011-1 Notes will be deposited into the Program Fund and used to pay the costs of issuing the 2011-1 Notes.

#### The Collection Fund

The Trustee will establish the Collection Fund as part of the Trust Estate. The Trustee will deposit into the Collection Fund all moneys received by or on behalf of the Authority or the Servicer as assets of, or with respect to, the Trust Estate. Money on deposit in the Collection Fund will be used as described below under “THE TRUST ESTATE - Flow of Funds.”

#### The Operating Fund

The Trustee will establish the Operating Fund as part of the Trust Estate. Money on deposit in the Operating Fund will be used to pay all Operating Costs. The Operating Fund will be funded as described below under “THE TRUST ESTATE - Flow of Funds” in this Offering Memorandum in an amount equal to the Operating Costs for the current quarter and such additional amount as the Authority shall deem appropriate (not to exceed four months’ of Operating Costs) (the “Operating Fund Requirement”). Amounts in the Operating Fund in excess of the Operating Fund Requirement will be transferred to the Collection Fund on a quarterly basis.

#### The Capitalized Interest Fund

The Trustee will establish a Capitalized Interest Fund as part of the Trust Estate. On the Issue Date, the Authority will make a deposit to the Capitalized Interest Fund from the proceeds of the 2011-1 Notes in the amount of approximately \$2,500,000. Moneys in the Capitalized Interest Fund will be used to make



one or more of the transfers described herein in items (i) through (iii) in “THE TRUST ESTATE - Flow of Funds” herein if there would otherwise be a shortfall. Money withdrawn from such Fund will not be replenished. To the extent amounts in the Capitalized Interest Fund exceed the maximum amounts set forth in the Step-down Schedule under the subheading “THE TRUST ESTATE - Capitalized Interest Fund” herein on the respective dates set forth in such table, the Trustee will be required to transfer such excess to the Collection Fund.

#### The Debt Service Fund

The Trustee will establish a Debt Service Fund as part of the Trust Estate and within the Debt Service Fund, a Principal Account and an Interest Account. Moneys in the Interest Account will be applied to pay interest on the 2011-1 Notes. Moneys in the Principal Account will be applied to pay the principal of the 2011-1 Notes or to pay the Redemption Price of 2011-1 Notes to be redeemed on a Distribution Date.

#### The Debt Service Reserve Fund

The Trustee will establish the Debt Service Reserve Fund as part of the Trust Estate. On the Issue Date, the Authority will make a deposit to the Debt Service Reserve Fund in the amount of \$1,176,266. The Debt Service Reserve Fund is subject to a minimum amount (the “Debt Service Reserve Requirement”) equal to the greater of (i) 0.25% of the Pool Balance on any particular date of calculation or (ii) 0.10% of the Initial Pool Balance. Moneys in the Debt Service Reserve Fund will be used to pay principal of and interest on the 2011-1 Notes if there would otherwise be a default in the payment thereof. To the extent the amount in the Debt Service Reserve Fund falls below the Debt Service Reserve Requirement, the Debt Service Reserve Fund will be replenished from funds available in the Collection Fund as described below under “THE TRUST ESTATE - Flow of Funds” in this Offering Memorandum. Funds on deposit in the Debt Service Reserve Fund in excess of the Debt Service Reserve Requirement will be transferred to the Collection Fund on a quarterly basis.

Amounts deposited in all funds and accounts created and maintained under the 2011-1 General Resolution (other than the Department Reserve Fund) will be used for the payment of principal of and interest on the 2011-1 Notes if there would otherwise be a default in payment. The order of Funds and Accounts from which moneys are to be transferred in the event that deposits of moneys in the Collection Fund to the Interest Account and Principal Account are insufficient to avoid a default in payment of principal of or interest on the 2011-1 Notes will be the Capitalized Interest Fund, the Collection Fund, the Principal Account or Interest Account of the Debt Service Fund, the Program Fund, the Debt Service Reserve Fund, and then the Operating Fund.

#### The Department Reserve Fund

The Trustee will establish a Department Reserve Fund. The Department Reserve Fund will not be a part of the Trust Estate. Amounts in the Department Reserve Fund will be used to pay amounts due and payable to the U.S. Department of Education related to the Financed Student Loans or any other payment due and payable to a Guaranty Agency relating to its guarantee of Financed Student Loans, or any other payment due to the Servicer or the Eligible Lender, another entity or trust estate if amounts due under the 2011-1 General Resolution to the U.S. Department of Education or a Guaranty Agency with respect to Financed Student Loans were paid by the Servicer, the Eligible Lender, such other entity or trust estate pursuant to a joint sharing agreement, an intercreditor agreement, or otherwise (collectively the “Department Reserve Fund Amount”).

The Department Reserve Fund will be funded as described under “THE TRUST ESTATE - Flow of Funds” herein in an amount equal to (i) the Department Reserve Fund Amount for the current quarter and (ii) such additional amount as the Authority shall deem appropriate (not to exceed four months of Department Reserve Fund Amounts) (collectively the “Department Reserve Fund Requirement”). Amounts in the Department Reserve Fund in excess of the Department Reserve Fund Requirement will be required to

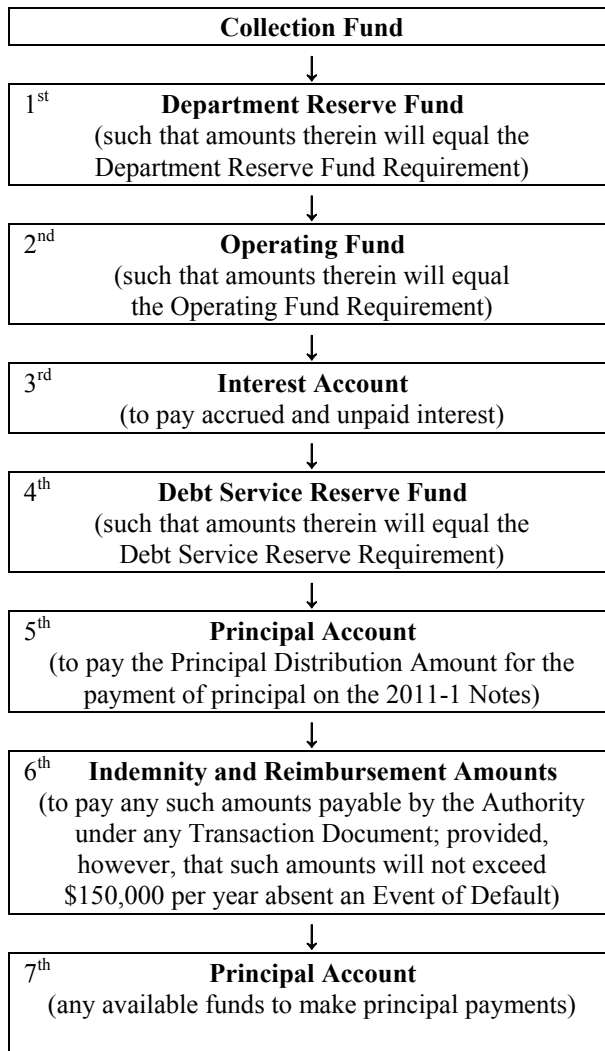
be transferred to the Collection Fund on a quarterly basis. See “THE TRUST ESTATE - Department Reserve Fund.”

**Characteristics of the Financed Student Loans**

On the Issue Date, the Authority will pledge to the Trust Estate a portfolio of Student Loans that are described more fully below under “CHARACTERISTICS OF THE FINANCED STUDENT LOANS,” having an aggregate principal balance of approximately \$466,543,976 as of the Cutoff Date. As of the Cutoff Date, the weighted average annual interest rate of the Student Loans was approximately 4.42% and their weighted average remaining term to scheduled maturity was approximately 225 months.

**Flow of Funds**

Not later than the sixteenth (16<sup>th</sup>) day of each January, April, July and October, unless an Event of Default has occurred, Available Funds will be used to make the following deposits and distributions, to the extent funds are available, as set forth in the following chart:



See “THE TRUST ESTATE - Flow of Funds” in this Offering Memorandum.

“Principal Distribution Amount” means, with respect to any Distribution Date, the amount, if any, by which (a) the aggregate principal amount of 2011-1 Notes Outstanding as of the end of the most recent Collection Period exceeds (b) the Adjusted Pool Balance divided by 120%; but not less than the amount of any principal amount due if such Distribution Date is also a Stated Maturity Date or 2011-1 Notes have been duly called for redemption on such Distribution Date.

Flow of Funds After Events of Default

After the occurrence of an Event of Default under the 2011-1 General Resolution, payments of principal and interest on the 2011-1

Notes will be made in accordance with the provisions of the 2011-1 General Resolution. See Appendix D “SUMMARY OF CERTAIN PROVISIONS OF THE 2011-1 GENERAL RESOLUTION – Defaults and Remedies.”

#### No Recycling

No recycling of revenues into additional Student Loans will be permitted under the 2011-1 General Resolution.

#### Credit Enhancement

Credit enhancement for the 2011-1 Notes will include overcollateralization and cash on deposit in certain funds and accounts in the Trust Estate, as described below under “THE TRUST ESTATE.”

#### Parity Percentage

On the Issue Date, the Parity Percentage will be approximately 106.6%. “Parity Percentage” means, for any given date, the Adjusted Pool Balance divided by the aggregate principal amount of the 2011-1 Notes Outstanding after giving effect to any payments of principal to be made on such date.

“Adjusted Pool Balance” for a given Distribution Date means the sum of the Pool Balance as of the end of the most recent Collection Period, the Value of the Debt Service Reserve Fund and the Value of the Capitalized Interest Fund, after giving effect to any withdrawals from each of such Funds since the end of the last Collection Period. See “THE TRUST ESTATE - Parity Percentage” herein.

#### **Joint Sharing Agreement**

Due to a U.S. Department of Education policy limiting the granting of eligible lender identification numbers, billings submitted to the U.S. Department of Education for origination fees, Interest Subsidy Payments, and Special Allowance Payments with respect to trust estates of the Authority other than the Trust Estate related to the 2011-1 Notes may be consolidated with billings for the payments for Financed Student Loans using the same lender

identification number. U.S. Department of Education payments are made in lump sum form. The same may be applicable with respect to payments by a Guaranty Agency. In addition, if amounts are owed from the Authority’s other unrelated trust estates to the U.S. Department of Education, U.S. Department of Education lump sum payments may be offset by these amounts and therefore may affect other trust estates using the same eligible lender number. The Authority, the Trustee and the Foundation have agreed, in a joint sharing agreement to allocate properly and to pay to or from the applicable trust estate amounts that should be reallocated to reflect payment on the FFELP loans of each such trust estate.

#### **Servicing and Administration**

The Foundation will act as Administrator and Servicer with respect to the Financed Student Loans.

The Authority will covenant to maintain a Backup Servicing Agreement. The Financed Student Loans will be transferred for servicing by the Backup Servicer under the circumstances described in the definition of “Servicer Transfer Trigger” in Appendix C “GLOSSARY OF CERTAIN DEFINED TERMS.” For more information on the Backup Servicing Agreement with Nelnet Servicing, LLC, see “THE BACKUP SERVICER” herein.

“Servicer” means the Foundation and any other organization whose regular business includes the servicing of loans for post-secondary education with which the Authority has entered into a servicing agreement and, in any case, so long as such party acts as servicer for Financed Student Loans. “Administrator” means the Foundation, the Authority or any other organization with which the Authority has entered into an administration agreement with respect to the Student Loan Finance Program and, in any case, so long as such party acts as administrator with respect to the Financed Student Loans.

## **Optional Redemption**

The 2011-1 Notes are subject to optional redemption in whole but not in part at the Authority's option on any Distribution Date when the Pool Balance is 10% or less of the Initial Pool Balance.

## **Book-Entry Registration**

The 2011-1 Notes will be delivered in book-entry form through The Depository Trust Company, and may be available for settlement through Clearstream and Euroclear as participants in The Depository Trust Company. Noteholders will not receive a certificate representing his, her, or its 2011-1 Notes except in very limited circumstances. See Appendix E "BOOK ENTRY SYSTEM" and Appendix F "GLOBAL CLEARANCE, SETTLEMENT, AND TAX DOCUMENTATION PROCEDURES."

## **Ratings of the 2011-1 Notes**

As of the Issue Date, the 2011-1 Notes will be rated by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") in their highest rating category. See "RATINGS" herein.

## **Forward-Looking Statements**

Statements in this Offering Memorandum, including, but not limited to, those concerning the characteristics of the Financed Student Loans, constitute forward looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may vary materially from such expectations.

Prospective investors of the 2011-1 Notes should not place undue reliance on those forward-looking statements and should review the factors described under the heading "RISK FACTORS," that could cause actual results to differ from expectations.

## **Reports to Noteholders**

The Authority will enter into a Continuing Disclosure Certificate (the "Continuing Disclosure Certificate") for the benefit of the Noteholders and Beneficial Owners of the 2011-1 Notes and in order to assist any Underwriter participating in the sale of the 2011-1 Notes in complying with Rule 15c2-12 promulgated by the U.S. Securities and Exchange Commission. See "REPORTS TO NOTEHOLDERS" herein.

## **Higher Education Act**

For information on the Federal Family Education Loan Program and recent changes thereto, see Appendix B hereto.

## **CUSIP Numbers:**

- A-1 Notes: 658262 FY1
- A-2 Notes: 658262 FZ8
- A-3 Notes: 658262 GA2

## **International Securities Identification Number (ISIN):**

- A-1 Notes: US658262FY11
- A-2 Notes: US658262FZ85
- A-3 Notes: US658262GA26

## **European Common Codes:**

- A-1 Notes: 059842536
- A-2 Notes: 059855182
- A-3 Notes: 059855379

## **RISK FACTORS**

Potential investors in the 2011-1 Notes should consider the following risk factors together with all other information in this Offering Memorandum in deciding whether to purchase the 2011-1 Notes. The following discussion of possible risks is not meant to be an exhaustive list of the risks associated with the purchase of the 2011-1 Notes and does not necessarily reflect the relative importance of the various risks. Additional risk factors relating to an investment in the 2011-1 Notes are described throughout this Offering Memorandum, whether or not specifically designated as risk factors. There can be no assurance that other risk factors will not become material in the future.

### **Experience May Vary from Assumptions**

The Authority expects that the revenues available for debt service to be received pursuant to the 2011-1 General Resolution should be sufficient to pay principal of and interest on the 2011-1 Notes when due and also to pay the Operating Costs until the maturity or earlier retirement of the 2011-1 Notes. 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 Student Loans to be held pursuant to the 2011-1 General Resolution, the composition of and yield on the Portfolio, the rate of return on moneys to be invested in various Funds and Accounts in the Trust Estate 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 Student 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 2011-1 General Resolution. See "CHARACTERISTICS OF THE FINANCED STUDENT LOANS" for certain information regarding the Portfolio.

### **2011-1 Notes Are Payable Solely from the Trust Estate and Noteholders Have No Other Recourse against the Authority**

Interest and principal on the 2011-1 Notes will be paid solely from the funds and assets held in the discrete Trust Estate created under the 2011-1 General Resolution. See "THE TRUST ESTATE" herein. No insurance or guarantee of the 2011-1 Notes will be provided by any government agency or instrumentality, by any insurance company or by any other person or entity. Payments of interest and principal on the 2011-1 Notes will ultimately depend on the amount and timing of payments and other collections in respect of the Financed Student Loans and other assets in the Trust Estate. Noteholders will have no recourse against any party if the Trust Estate created under the 2011-1 General Resolution is insufficient for repayment of the 2011-1 Notes.

### **State Not Liable For 2011-1 Notes**

**The 2011-1 Notes do not constitute a recourse debt or general obligation of the State of North Carolina (the "State") or any political subdivision thereof, but are payable solely from the Trust Estate created by the 2011-1 General Resolution. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2011-1 Notes. The Authority has no taxing power.**

## **Interest Rates and Differentials**

There is a degree of basis risk associated with the 2011-1 Notes. Basis risk is the risk that shortfalls might occur because the interest rates of the Financed Student Loans and those of the 2011-1 Notes adjust on the basis of different indexes. As described herein, the interest rates on the 2011-1 Notes from time to time will be based on LIBOR, thus the interest rates on the 2011-1 Notes are variable and will fluctuate from one interest period to another in response to changes in benchmark rates, general market conditions, national and international conditions, and numerous other factors, all of which are totally beyond the control or anticipation of the Authority. The Authority can make no representation as to what these rates may be in the future. The interest payments, and certain other interest related payments, received by the Trust Estate from the Financed Student Loans will also vary from time to time based on changes in the bond equivalent rate of U.S. Treasury Bills and commercial paper rates, as applicable. Because of the differences in the bases for the calculation of interest payable on the 2011-1 Notes and the determination of the interest and interest-related payments received by the Trust Estate from the Financed Student Loans, there could be times when payments received by the Trust Estate are not sufficient to cover principal and/or interest payments to be made on the 2011-1 Notes and Operating Costs. Further, proceeds of the 2011-1 Notes and moneys in the funds and accounts under the 2011-1 General Resolution may be invested from time to time in Investment Obligations that bear interest at rates that fluctuate and that differ from, and may be less than, the interest rates on the 2011-1 Notes.

## **Recent Law Eliminating the Federal Family Education Loan Program**

The Health Care and Education Reconciliation Act of 2010 (“HCERA”) was signed into law on March 30, 2010, and, among other things, requires that all new federal student loans be originated through the federal Direct Loan program effective July 1, 2010.

The Foundation’s ability to originate new Federal Family Education Loan Program (“FFELP” or “Federal Family Education Loan Program”) loans terminated on June 30, 2010. Such occurrence is likely to reduce the Foundation’s FFELP servicing revenues and increase its unit servicing costs with respect to FFELP loans as the aggregate FFELP loan portfolio being serviced by the Foundation diminishes over time. If circumstances necessitate a transfer of servicing of Financed Student Loans to the backup servicer, a disruption could occur that results in reductions or delays in cash flow to the Trust Estate. To the extent that the Capitalized Interest Fund and the Debt Service Reserve Fund are insufficient to cover any of such shortfalls, the Authority’s ability to make payments of principal of and interest on the 2011-1 Notes and pay Operating Costs may be adversely affected.

The elimination of the FFELP program may result in an increased level of prepayments on a portion of the Financed Student Loans. Borrowers of the Financed Student Loans who are students, or parents of students, continuing their education after June 30, 2010 and in need of student loans, will be unable to receive another FFELP loan and are likely to receive a federal Direct Loan. Having student loans in both programs may cause some of such borrowers to consolidate their student loans with a federal Direct Consolidation Loan, which would result in a prepayment on the Financed Student Loan. HCERA also allows borrowers having loans in both programs to consolidate during in-school and grace periods from July 1, 2010 to June 30, 2011. Additionally, the federal government may offer incentives, such as principal reductions, to encourage FFELP borrowers to transition their loans to the federal Direct Loan program which would have the effect of increasing prepayments. To the extent that prepayments are higher than anticipated, the proceeds of such prepayments may result in the payment of the 2011-1 Notes faster than anticipated prior to the applicable Stated Maturity Date.

## **No Additional Notes Will Be Issued and, therefore, the 2011-1 Notes Will Bear All Losses Not Covered by Available Credit Enhancement**

Credit enhancement for the 2011-1 Notes includes overcollateralization and cash on deposit in the Capitalized Interest Fund and the Debt Service Reserve Fund. The Authority is not issuing any other bonds, notes, or other obligations that are on a parity with or subordinate to the 2011-1 Notes. Therefore, to the extent that the credit enhancement described above is exhausted, the 2011-1 Notes will bear any risk of loss.

### **Timing and Sufficiency of Receipts**

Amounts received with respect to the Trust Estate, including, but not limited to, Financed Student Loans, may vary materially in both timing of receipts and amounts received as a result of innumerable factors. For loans disbursed prior to April 1, 2006, lenders are entitled to retain interest income in excess of the special allowance support level in instances when the loan rate exceeds the special allowance support level. However, lenders are not allowed to retain interest income in excess of the special allowance support level on loans disbursed on or after April 1, 2006, and are required to rebate any such “excess interest” to the federal government on a quarterly basis. This modification effectively limits lenders’ returns to the special allowance support level and could require a lender to rebate excess interest accrued but not yet received. For fixed rate loans, the excess interest owed to the federal government will be greater when commercial paper rates are relatively low, causing the special allowance support level to fall below the loan rate. There can be no assurance that such factors or other types of factors will not occur or that, if they occur, such occurrence will not materially adversely affect the sufficiency of the Trust Estate to pay the principal of and interest on the 2011-1 Notes, as and when due.

Delay in the receipt of principal of and interest on Financed Student Loans may adversely affect payment of the principal of and interest on the 2011-1 Notes when due. Principal of and interest on Financed Student 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) Financed Student 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 Portfolio; and (v) the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Portfolio. See “CHARACTERISTICS OF THE FINANCED STUDENT LOANS” for certain information regarding the Portfolio.

In addition, reimbursement of defaulted loans by a guaranty agency and/or the Secretary may be delayed.

### **Sale of Financed Student Loans After Default**

Upon the occurrence of an Event of Default under the 2011-1 General Resolution, Financed Student Loans may have to be sold. However, it may not be possible to find a purchaser for such Financed Student Loans. Also, the market value of such Financed Student Loans plus other assets in the Trust Estate available for the payment of the 2011-1 Notes may not equal the principal amount of the 2011-1 Notes Outstanding plus accrued interest. The secondary market for Student Loans also could be further diminished, resulting in fewer or no potential buyers of such Financed Student Loans and lower prices or no bids available in the secondary market for such Financed Student Loans. Noteholders may suffer a loss in circumstances such as these if purchasers cannot be found who are willing to pay sufficient prices for such Financed Student Loans.

## **Changes in Federal and State Law**

There can be no assurance that relevant federal and State 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. For example, as described above under “Recent Law Eliminating the Federal Family Education Loan Program,” HCERA eliminated the ability to originate new FFELP loans after June 30, 2010. In addition, certain legislative changes prior to HCERA (i) made significant changes in interest rates, annual and aggregate borrowing limits, circumstances allowing deferment, Special Allowance Payments and repayment provisions relating to student loans made subsequent to such legislation and (ii) made several changes to administrative and eligibility provisions relating to guaranty agencies and lenders. See “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” in Appendix B hereto.

The availability of various federal payments in connection with the Federal Family Education Loan Program is subject to federal budgetary appropriation. In recent years, federal budgetary legislation has been enacted that has provided, subject to certain conditions, for the mandatory curtailment of certain federal budget expenditures, including expenditures in connection with the Federal Family Education Loan Program and the recovery of certain advances previously made by the federal government to state guaranty agencies in order to achieve certain deficit reduction guidelines. No representation is made as to the effect, if any, of future federal budgetary appropriation or legislation upon expenditures by the U.S. Department of Education, or the effect, if any, of any future legislation or regulations upon the Federal Family Education Loan Program or other factors that could potentially affect timely payment of principal and interest on the 2011-1 Notes.

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, guaranteed and reinsured, and under which lenders are provided Interest Subsidy Payments or Special Allowance Payments. Such changes, if made, might materially and adversely affect the ability of the Authority to pay the principal of and interest on the 2011-1 Notes when due.

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

Noncompliance with the Higher Education Act with respect to Financed Student Loans may adversely affect payment of principal of and interest on the 2011-1 Notes when due. The Higher Education Act and the applicable regulations thereunder require the lenders making Student Loans, guaranty agencies guaranteeing Student Loans and lenders or servicers servicing Student Loans to follow certain due diligence procedures in an effort to ensure that Student Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include, but are not limited to, certain loan application procedures, certain loan origination and servicing procedures and, when a Student Loan is in default, certain loan collection procedures. The procedures to make, guarantee and service FFELP loans are set forth in the Code of Federal Regulations and other documents of the U.S. Department of Education, and no attempt has been made in this Offering Memorandum 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 guaranty agency on such loans or may result in the guaranty agency’s refusal to honor its guarantee on such loans to holders of Student Loans, including the Authority. Such action by the Secretary could adversely affect a guaranty agency’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 2011-1 Notes. See “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” in Appendix B.



## **Investment of Funds and Accounts**

The 2011-1 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 mean certain designated securities, if and to the extent the same are at the time legal for investment of moneys and funds held under the 2011-1 General Resolution, provided that such investments meet certain ratings criteria, all as described in the 2011-1 General Resolution. Investment Obligations are subject to the risks inherent in investment securities, such as fluctuating returns and loss of principal; accordingly, the value of each Fund and Account is subject to the risks inherent in investment securities. See “GLOSSARY OF CERTAIN DEFINED TERMS” in Appendix C and “SUMMARY OF CERTAIN PROVISIONS OF THE 2011-1 GENERAL RESOLUTION” in Appendix D hereto for permissible Investment Obligations.

Because the reinvestment rate on the funds on deposit in the Trust Estate will likely be less than the interest rate on the 2011-1 Notes, the resulting negative arbitrage will cause a reduction in the value of the Trust Estate and thus, the Parity Percentage. The longer that loan collections or other revenues remain in the Trust Estate prior to the payment of principal of and interest on the 2011-1 Notes and Operating Costs, the greater the likelihood that (i) the Parity Percentage will fall and (ii) funds from the Capitalized Interest Fund and, perhaps, the Debt Service Reserve Fund will be diminished for the payment of debt service and Operating Costs.

## **Enforceability of Remedies**

The remedies available to the Trustee, the Authority or the owners of the 2011-1 Notes upon the occurrence of an Event of Default under the 2011-1 General Resolution or other documents described herein are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically the United States Code, the remedies specified by the 2011-1 General Resolution and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the issuance of the 2011-1 Notes will be qualified, as to the enforceability of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency, judicial discretion, or other similar laws affecting the rights of creditors generally. There can be no assurance that the occurrence of an Event of Default or a bankruptcy, reorganization, or insolvency proceeding will not occur or that, if they occur, such occurrence will not materially adversely affect the Authority’s ability to pay the principal of and interest on the 2011-1 Notes from the assets in the Trust Estate, as and when due.

## **Repayment Incentives**

Under some borrower payment incentive programs, a portion of the principal of Financed Student Loans may be forgiven and/or interest rates on Financed Student Loans may be reduced based upon the behavior and payment performance of the borrowers. The Authority cannot predict which borrowers will qualify for or decide to participate in these programs. The effect of these incentive programs may be to reduce the yield on the Financed Student Loans. If the number of borrowers that utilize the Authority’s repayment incentives is greater than assumed in the current analysis of the Portfolio, the total loan receipts on Financed Student Loans will be less than assumed. See “CHARACTERISTICS OF THE FINANCED STUDENT LOANS – Repayment Incentives to Borrowers and Borrower Benefits” for information regarding the Authority’s repayment incentives.

## **Borrower Default on the Student Loans**

If a borrower defaults on a Financed Student Loan that is only 98% or 97% guaranteed, the Trust Estate will experience a loss of approximately 2% or 3%, as applicable, of the outstanding principal and

accrued interest on that Financed Student Loan. If defaults occur on the Financed Student Loans and the credit enhancement described herein is insufficient, the Noteholder may suffer a delay in payment or losses on the 2011-1 Notes. See “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Federal Insurance and Reinsurance and Reimbursement of Loan Holders” in Appendix B hereto for information regarding the guarantee aspects of the Financed Student Loans.

### **Certain Actions Can Be Taken Without Noteholder Approval or Confirmation of Ratings**

The 2011-1 General Resolution provides that the Authority and the Trustee may undertake various actions without Noteholder approval. Such actions include, but are not limited to, amending the General Resolution and increasing Operating Costs. To the extent such actions are taken after issuance of the 2011-1 Notes, Noteholders will have to accept such actions and their impact on 2011-1 Notes Outstanding. See “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION” in Appendix D hereto for a summary of the 2011-1 General Resolution.

Certain of the Rating Agencies rating the 2011-1 Notes have adopted a policy of receiving notice of certain actions by the Authority, rather than being in a position to prevent such actions if such Rating Agency determines the action is not in the best interest of the Noteholders. Thus, the Authority could take action that would result in the downgrade of the rating provided by such Rating Agencies without first obtaining a confirmation of ratings.

### **Amendments of the 2011-1 General Resolution and the 2011-1 Series Resolution and Waivers of Defaults**

Under the 2011-1 General Resolution and the 2011-1 Series Resolution, holders of specified percentages of the aggregate principal amount of 2011-1 Notes may amend or supplement provisions thereof and waive Events of Default and compliance provisions without the consent of the other Noteholders. A Noteholder may have no recourse if other Noteholders vote and such Noteholder disagrees with the vote on these matters. The Noteholders may vote in a manner that impairs the Authority’s ability to pay principal and interest on the 2011-1 Notes and pay Operating Costs from assets in the Trust Estate.

### **2011-1 Notes Issued in Book-Entry Form Only**

The 2011-1 Notes will be issued in book-entry form only, represented by a single fully registered note for each Tranche of the 2011-1 Notes, initially registered in the name of Cede & Co., the nominee of DTC. Beneficial Owners will be able to exercise their rights only indirectly through DTC and its participating organizations (collectively, “DTC Participants”).

The furnishing of notices and other communications by DTC to DTC Participants, and directly and indirectly through the DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Furthermore, Beneficial Owners may suffer delays in the receipt of distributions on the 2011-1 Notes, and Beneficial Owners’ ability to pledge or otherwise take actions with respect to their interest in the 2011-1 Notes may be limited due to the lack of a physical certificate evidencing such interest.

### **Secondary Market**

The Underwriters may assist in resales of the 2011-1 Notes but are not required to do so. If a secondary market for the 2011-1 Notes does develop, it might not continue or it might not be sufficiently liquid to allow the resale of any of the 2011-1 Notes. The Authority does not intend to list the 2011-1

Notes on any exchange. Noteholders may not be able to sell their 2011-1 Notes when desired or to obtain the desired price. The market values of the 2011-1 Notes may fluctuate and movements in price may be significant.

The ratings of the 2011-1 Notes do not address the market liquidity for such notes.

### **Military Service Obligations and Natural Disasters**

Military service obligations and national disasters may result in delayed payments from borrowers or lowered interest rates for eligible service members. Congress has enacted statutes and other guidelines that provide relief to borrowers who enter active military service, to borrowers in reserve status who are called to active duty after the organization of their student loan, and to individuals who live in a disaster area or suffer a direct economic hardship as a result of a national emergency.

The number and aggregate principal balance of Financed Student Loans that may be affected by the application of these statutes and other guidelines will not be known at the time of issuance of the 2011-1 Notes. If a substantial number of borrowers of Student Loans becomes eligible for the relief under these statutes and other guidelines, there could be an adverse effect on the total collections on those Student Loans and the Authority's ability to make principal and interest payments on the 2011-1 Notes from assets in the Trust Estate.

### **Student Loans are Unsecured and the Ability of a Guaranty Agency to Honor its Guarantee May Become Impaired**

The Higher Education Act requires that all FFELP loans be unsecured. As a result, the security for payment of the Financed Student Loans held in the Trust Estate is the guarantee provided by a Guaranty Agency.

A deterioration in the financial status of a Guaranty Agency and its ability to honor guarantee claim on defaulted FFELP loans could delay or impair the Guaranty Agency's ability to make claims payments. The financial condition of a Guaranty Agency can be adversely affected if it submits a large number of reimbursement claims to the U.S. Department of Education, which results in a reduction of the amount of reimbursement that the U.S. Department of Education is obligated to pay the Guaranty Agency. The U.S. Department of Education may also require a Guaranty Agency to return its reserve funds to the U.S. Department of Education upon a finding that the reserves are unnecessary for the Guaranty Agency to pay its program expenses or to serve the best interests of the Federal Family Education Loan Program. The inability of a Guaranty Agency to meet its guarantee obligations could reduce the amount of money available to pay principal and interest to Noteholders or delay those payments past their due date.

### **Payment Offsets by a Guaranty Agency or the U.S. Department of Education Could Prevent the Authority from Paying the Full Amount of the Principal and Interest Due on 2011-1 Notes**

The Foundation, as an eligible lender, may use the same U.S. Department of Education lender identification number for the Financed Student Loans as it uses for other FFELP loans it services that are not part of the Trust Estate. If so, the billings submitted to the U.S. Department of Education and the claims submitted to a Guaranty Agency with respect to such Student Loans will be consolidated with the billings and claims for payments for FFELP loans that are not part of the Trust Estate using the same lender identification number. Payments on those billings by the U.S. Department of Education as well as claim payments by the Guaranty Agency will be made to the Foundation as the eligible lender in lump sum form. Those payments must be allocated by the Foundation as eligible lender among FFELP loans in various trust estates that reference the same lender identification number.

If the U.S. Department of Education or a Guaranty Agency determines that the Foundation as eligible lender owes it a liability on any FFELP loan, the U.S. Department of Education or the Guaranty Agency may seek to collect that liability by offsetting it against payments due to the Foundation as eligible lender in respect to the Financed Student Loans. Any offsetting or shortfall of payments due to the Foundation as eligible lender could adversely affect the amount of funds available to the Trust Estate and thus the Authority's ability to pay principal and interest on the 2011-1 Notes from assets in the Trust Estate.

### **Superior Security Interest**

If, through inadvertence or fraud, Financed Student Loans were to be sold to a purchaser who purchases in good faith without knowledge of the Trustee's security interest, such purchaser may defeat the Trustee's security interest. The Foundation maintains custody of the loan documents for the Financed Student Loans. The loan documents may not be physically segregated or marked to evidence the Trustee's interest in those Financed Student Loans. A third party that obtained control of the loan documents might be able to assert rights that defeat the Trustee's security interest.

### **The Financed Student Loans May be Evidenced by a Master Promissory Note**

Loans made under the Federal Family Education Loan Program may be evidenced by a Master Promissory Note. Once a borrower executes a Master Promissory Note (as defined in Appendix B) with a lender, additional loans made by the lender are evidenced by a confirmation sent to the borrower, and all loans are governed by the single Master Promissory Note.

A loan evidenced by a Master Promissory Note may be pledged as security or sold independently of the other loans evidenced by the Master Promissory Note. If the Foundation originated a Student Loan evidenced by a Master Promissory Note, other parties could claim an interest in the Student Loan. This could occur if another party secured by another loan evidenced by the same promissory note or the holder of the Master Promissory Note were to take an action inconsistent with the Authority's rights to a Student Loan, such as delivery of a duplicate copy of the Master Promissory Note to a third party for value. Although such action would not defeat the Authority's rights to the Student Loan or impair the security interest held by the Trustee for the benefit of the Noteholder, it could delay receipt of principal and interest payments on the Student Loan.

### **Commingling of Payments on Financed Student Loans Could Prevent Payment of the Full Amount of the Principal and Interest Due on the 2011-1 Notes**

Payments received on the Authority's student loans generally are deposited into an account in the Authority's or the Foundation's name each business day. However, payments received on the Financed Student Loans will not be segregated from payments received on other student loans. Such amounts are transferred to the Trust Estate promptly, but not later than two business days from the receipt thereof by the Foundation in good order. If the commingled account becomes subject to a claim in litigation or is attached in a proceeding in bankruptcy or otherwise, the Foundation may be unable to transfer payments received on the Financed Student Loans to the Trustee, and the Authority may be unable to pay principal and interest on the 2011-1 Notes from assets in the Trust Estate.

### **The Servicing Function may be Transferred, Resulting in Additional Costs or a Diminution in Servicing Performance, Which Could Cause Delays in Payment or Losses on the 2011-1 Notes**

In the event that the servicing functions with respect to Financed Student Loans are transferred to the backup servicer or another entity, the cost of the transfer of servicing to the successor is likely to be borne by the Trust Estate, and the transfer may result in a delay in the processing of payments for transfer

to the Trustee. The transfer of the Financed Student Loans held in the Trust Estate is likely to take a number of weeks, or perhaps months to complete, which could allow time for deterioration in the Trust Estate and a delay in the filing of default claims and the collection of revenues. The occurrence of these events could adversely affect the Authority or its ability to pay principal of and interest on the 2011-1 Notes from the assets in the Trust Estate. See “THE BACKUP SERVICER” herein.

**The Ratings of the 2011-1 Notes are Not A Recommendation to Purchase and May Change, Affecting the Price of the 2011-1 Notes**

It is a condition to the issuance of the 2011-1 Notes that the 2011-1 Notes must be rated in the highest rating category of Fitch and S&P. Ratings are based primarily on the creditworthiness of the underlying student loans, the amount of credit enhancement, and the legal structure of the transaction. The ratings are not a recommendation to Noteholders to purchase, hold, or sell 2011-1 Notes inasmuch as the ratings do not comment as to market price or suitability for investors. An additional Rating Agency may rate the 2011-1 Notes, and that rating may not be equivalent to the initial ratings described in this Offering Memorandum. Ratings may be increased, lowered, or withdrawn by any Rating Agency if, in the Rating Agency’s judgment, circumstances so warrant. A downgrade in the rating of the 2011-1 Notes is likely to decrease the price a subsequent purchaser will be willing to pay for the 2011-1 Notes. The ratings of the 2011-1 Notes by the Rating Agencies will not address the market liquidity of the 2011-1 Notes.

**Ratings of Other Student Loan Backed Securities Issued by the Authority May be Reviewed or Downgraded**

Recent concerns over the financial health of several financial institutions and changes in ratings criteria by certain rating agencies have caused certain of the rating agencies to announce that they are reviewing or intend to review the ratings assigned to certain securities, including student loan backed securities. Additionally, repeated failed auctions for many auction rate securities, including student loan backed auction rate securities, may also cause the rating agencies to announce ratings actions. The Authority has previously issued student loan backed auction rate securities, and failed auctions have occurred repeatedly since February 2008. The Authority has also previously issued bonds supported by letters of credit issued by banks, including certain bonds that have recently been downgraded due to rating agency review of the bank providing such letter of credit. Ratings actions may take place at any time. The Authority cannot predict the timing of any ratings actions, nor can it predict whether the ratings assigned to any of its securities will be downgraded.

Any further adverse action by the rating agencies regarding securities issued previously by the Authority may adversely affect the market value of the 2011-1 Notes or any secondary market for the 2011-1 Notes that may develop.

**Payment Priorities Among the Tranches of the 2011-1 Notes May Result in a Greater Risk of Loss**

Except in the case of an Event of Default, some 2011-1 Notes will receive payments of principal after other 2011-1 Notes. The A-1 Notes will receive principal payments before the A-2 Notes and the A-3 Notes, and the A-2 Notes will receive principal payments before the A-3 Notes. Consequently, holders of certain 2011-1 Notes, particularly holders of 2011-1 Notes with longer maturities, may bear a greater risk of loss. Potential purchasers of the 2011-1 Notes should consider the sequence of principal payments among the Tranches of the 2011-1 Notes before making an investment decision.

## **The 2011-1 Notes Not Suitable Investment for all Investors**

The 2011-1 Notes are not a suitable investment if an investor requires a regular or predictable schedule of payments or payment on any specific date. The 2011-1 Notes are complex investments that should be considered only by investors who, either alone or with their financial, tax, and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of an investment, and the interaction of these factors.

## **Potential for Auction Rate Securities Litigation**

Over the last decade, a common structure in which student loan backed debt obligations have been issued has been as auction rate securities (“ARS”). Since 1995, the Authority has issued over \$2.3 billion ARS and, as of February 15, 2011, has approximately \$373 million in principal amount of ARS outstanding. In February 2008, the market for ARS encountered a serious disruption when all of the major investment banking firms that act as broker-dealers for ARS announced they would no longer purchase ARS for their own accounts to ensure that the auctions not fail. At such time and thereafter, a significant amount of auctions for ARS have failed. Beginning in March 2008, several lawsuits have been filed by investors against many of the investment banking firms who have acted as broker-dealers for ARS. Among the theories on which such litigation has been based are inadequate disclosure and misrepresentation. Some of the complaints have alleged that ARS were sold to investors as “cash equivalents,” and that ARS are now illiquid.

The Authority has not been a party to any such lawsuit nor has any such lawsuit been threatened against the Authority. However, no assurance can be given that such a lawsuit will not be filed against the Authority or that if such a lawsuit is filed against the Authority and is successful that the Authority’s ability to pay principal of and interest on the 2011-1 Notes would not be materially impaired.

The proceeds of 2011-1 Notes will be used, in part, to refund all of the Authority’s outstanding ARS.

## **General Economic Conditions**

Regional and national economic developments over the past three years have, by a number of measures, resulted in a greater reduction in household wealth and in the availability of civilian employment than during any comparable period during which the Authority’s student loan finance program has operated. Such developments have also resulted in a reduction in the availability of consumer credit and of general financial market liquidity. It is impossible to predict how long such conditions may continue or whether such conditions may worsen during the period in which they continue. Future performance of Financed Student Loans may be adversely affected by the current economic recession or by subsequent economic and other events affecting the employment prospects of borrowers or otherwise affecting their ability and willingness to repay Financed Student Loans. High levels of unemployment, either regionally or nationally, may result in increased borrower delinquency and default. Failures by borrowers to pay the principal of and interest on the Financed Student Loans in a timely fashion or an increase in deferments or forbearances could affect the timing and amount of available funds for any Collection Period. The effect of these factors on the timing and amount of available funds for any Collection Period, the ability of the Authority to make payments of principal of and interest on the 2011-1 Notes and pay Operating Costs and the likelihood of redemption of the 2011-1 Notes prior to their maturity, is impossible to predict.

## **The Authority May or May Not Exercise its Option to Redeem the 2011-1 Notes Prior to their Stated Maturity Date and the Yield to Noteholders May Be Affected**

The 2011-1 Notes may be repaid before Noteholders expect them to be in the event of an optional redemption. An optional redemption would result in the early retirement of the 2011-1 Notes Outstanding on that date. If this happens, the yield on the 2011-1 Notes may be affected and Noteholders will bear the risk that they cannot reinvest the money received in comparable investments at an equivalent yield. The 2011-1 Notes may also be repaid after Noteholders expect them to be in the event the Authority does not exercise the option to redeem them. If this happens, the yield on the 2011-1 Notes may be affected and Noteholders will not recover the principal of their investment as soon as they may have expected.

## **Potential for Internal Revenue Service Audit and Negative Consequences**

Certain other issuers of tax-exempt student loan bonds have announced audits by the Internal Revenue Service on certain tax-exempt bonds having been outstanding in recent years. The general understanding in the student loan industry is that the Internal Revenue Service has alleged that excess earnings calculations have been performed improperly by most issuers having issues under audit. The Authority has undertaken its excess earnings calculations in good faith and has retained a third-party consulting firm to perform such calculations on all of its tax-exempt bonds. To the extent that the Internal Revenue Service decides to audit tax-exempt bonds that the Authority has issued, it may determine that the calculations were performed improperly. If it does make this determination, it could assess a monetary fine on the Authority, and such fine could have a materially negative effect on the financial position of the Authority. Information about such audits could also affect the market value and marketability of the 2011-1 Notes. Additionally, future settlement of the existing audits with the Internal Revenue Service may lead to changes in student loan industry practice that may have a negative effect on the Authority and its operations.

## **Consumer Protection Laws**

Consumer protection laws impose requirements upon lenders and servicers. Some state laws impose finance charge restrictions on certain transactions and require certain disclosures of legal rights and obligations. Furthermore, to the extent applicable, these laws can impose specific statutory liabilities upon creditors who fail to comply with their provisions and may affect the enforceability of the loan. As they relate to FFELP loans, these state laws are generally preempted by the Higher Education Act.

## **Repurchase of Financed Student Loans**

The Foundation has agreed to purchase from the Trust Estate any Financed Student Loan that is no longer guaranteed as a result of the Foundation's improper servicing or origination and remains uncured for a period of more than ninety (90) days. The Foundation may not have the financial resources to meet this repurchase obligation, and the failure to repurchase a Financed Student Loan would be a breach of such obligation, but is not an Event of Default, and would not permit the exercise of remedies under the 2011-1 General Resolution unless such improper servicing or origination constitutes a Servicer Transfer Trigger as described herein under "THE BACKUP SERVICER – Transfer Triggers."

**\$445,000,000**  
**State of North Carolina**  
**State Education Assistance Authority**  
(A political subdivision of the State of North Carolina)  
**Student Loan Backed Notes**  
**2011-1 Series**  
consisting of

<u>Tranche</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price to Public</u>	<u>Stated Maturity Date</u>
A-1	\$ 98,000,000	3-month LIBOR plus 0.45%	99.86328%	January 25, 2021
A-2	127,000,000	3-month LIBOR plus 0.90%	99.13281%	January 26, 2026
A-3	220,000,000	3-month LIBOR plus 0.90%	93.90625%	October 25, 2041

**INTRODUCTION**

The purpose of this Offering Memorandum, 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 \$445,000,000 State Education Assistance Authority Student Loan Backed Notes, 2011-1 Series (the “2011-1 Notes”).

The 2011-1 Notes are being issued pursuant to the Act (hereinafter defined) and a general resolution (the “2011-1 General Resolution”) and series resolution (the “2011-1 Series Resolution”) which are expected to be effective on or about March 2, 2011. The proceeds of the 2011-1 Notes, together with other available funds, will be used and expended to (i) refund all of the outstanding auction rate securities (the “Auction Rate Bonds”) issued by the Authority pursuant to a resolution of the Authority adopted September 14, 1995 (the “1995 General Resolution”) and certain outstanding privately placed bonds (the “Privately Placed Bonds” and, together with the Auction Rate Bonds, the “Prior Bonds”) issued by the Authority pursuant to a resolution of the Authority effective on June 30, 2008 (the “2008-1 General Resolution” and, together with the 1995 General Resolution, the “Prior Resolutions”), (ii) fund deposits to certain Funds and Accounts and (iii) pay certain Costs of Issuance. The 2011-1 Notes will be the first and only series of Notes issued under the 2011-1 General Resolution.

**The Prior Resolutions do not secure the 2011-1 Notes.** Certain of the student loans financed with the proceeds of the Prior Bonds under the Prior Resolutions will be released from the trust estates created by the Prior Resolutions and will be transferred to the Trust Estate established by the 2011-1 General Resolution as security for the 2011-1 Notes.

For the definition of certain terms used herein and a summary of certain provisions of the 2011-1 General Resolution, see Appendix C “GLOSSARY OF CERTAIN DEFINED TERMS” and Appendix D “SUMMARY OF CERTAIN PROVISIONS OF THE 2011-1 GENERAL RESOLUTION.” Investors should make a full review of the entire Offering Memorandum 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 2011-1 General Resolution and the 2011-1 Series Resolution unless otherwise indicated. Complete and final copies of the 2011-1 General Resolution and the 2011-1 Series Resolution may be obtained after the Issue Date upon email request directed to the Authority at investor\_relations@ncseaa.edu. Loan-level data relating to the Student Loans that are expected to be Financed is available upon email request directed to the Authority at investor\_relations@ncseaa.edu.



## THE 2011-1 NOTES

### Principal Amounts, Stated Maturity Dates, and Prices

The 2011-1 Notes will mature in the amounts and on the Stated Maturity Dates as shown on the cover page hereof and will be sold at the prices listed on the cover page hereof.

### Interest Payments

Interest will accrue on the 2011-1 Notes at their respective interest rates during each Interest Period. The Initial Period for the 2011-1 Notes will begin on the Issue Date and end on July 24, 2011. Thereafter, each Interest Period will begin on a Distribution Date and end on the day immediately preceding the following Distribution Date. Interest payable on each Distribution Date will be the interest which has accrued from the most recent Distribution Date for which interest has been duly paid or provided for (or in the case of the initial Distribution Date, from the Issue Date of the 2011-1 Notes) through and including the day immediately preceding the next Distribution Date.

Interest on the 2011-1 Notes will be payable on July 25, 2011 and thereafter on the 25th day of October, January, April and July, and if such date is not a Business Day, interest will be payable on the next succeeding Business Day.

The interest rate on the A-1 Notes for each Interest Period will be equal to the Initial LIBOR Indexed Rate or the LIBOR Indexed Rate, as applicable, which is the sum of the applicable LIBOR rate plus 0.45%. The interest rate on the A-2 Notes for each Interest Period will be equal to the Initial LIBOR Indexed Rate or the LIBOR Indexed Rate, as applicable, which is the sum of the applicable LIBOR rate plus 0.90%. The interest rate on the A-3 Notes for each Interest Period will be equal to the Initial LIBOR Indexed Rate or the LIBOR Indexed Rate, as applicable, which is the sum of the applicable LIBOR rate plus 0.90%.

For the Initial Period, each Tranche of the 2011-1 Notes will bear interest at the applicable Initial LIBOR Indexed Rate for such Tranche. After the Initial Period, each Tranche of the 2011-1 Notes will bear interest at the LIBOR Indexed Rate for such Tranche. With respect to a Tranche, the LIBOR Indexed Rate will be determined on each Interest Rate Determination Date for each Interest Period. With respect to a Tranche, the LIBOR Indexed Rate will be determined by the Trustee as described below. Such LIBOR Indexed Rate will take effect on the Distribution Date immediately succeeding such Interest Rate Determination Date for such Tranche.

The LIBOR rate for the Initial Period will be determined based on the interpolation calculated by the following formula:

$$x + [a/b * (y-x)], \text{ with such fraction to be determined based on the Issue Date,}$$

where:

a = the number of days from the maturity date of four-month LIBOR to the first Distribution Date,

b = the number of days from the maturity date of four-month LIBOR to the maturity date of five-month LIBOR,

x = four-month LIBOR rate, and

y = five-month LIBOR rate, in each case, as of the second business day before the start of the Initial Period.

After the Initial Period, the LIBOR rate will be the LIBOR Rate. The LIBOR Rate will be determined and communicated by the Trustee as described below on each Interest Rate Determination Date for each Interest Period. The applicable LIBOR Indexed Rate based on such LIBOR Rate will take effect on the Distribution Date immediately succeeding such Interest Rate Determination Date.

The amount of interest distributable to holders of the 2011-1 Notes for each \$1,000 (or fraction thereof) in principal amount will be calculated by applying the applicable interest rate for the Interest Period to the principal amount of \$1,000 or such fraction, multiplying that product by the actual number of days in the Interest Period divided by 360.

The LIBOR Rate for Interest Periods other than the Initial Period means, for any given day, the rate per annum fixed by the British Bankers' Association at 11:00 a.m., London time (the "BBA Libor Rate"), on such day relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a three month period. If such a day is not a business day in London, then the rate most recently fixed as the BBA Libor Rate for a three-month period shall be used. Such rate may be available on the following Bloomberg screen: US0003M<Index>HP. If the rate is no longer available from Bloomberg or its successor, the rate for that day will be determined on the basis of rates at which deposits in U.S. dollars, having a three-month maturity and in a principal amount of not less than U.S. \$1,000,000, are offered at approximately 11:00 a.m., London time, on that Interest Rate Determination Date, to prime banks in the London interbank market by the Reference Banks. The Trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference Banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Trustee at approximately 11:00 a.m., New York City time, on that Interest Rate Determination Date, for loans in U.S. dollars to leading European banks having a three-month maturity and in a principal amount of not less than U.S. \$1,000,000. If the banks selected as described above are not providing quotations, the LIBOR Rate in effect for the applicable Interest Period will be the LIBOR Rate in effect for the previous Interest Period.

The determination of the interest rate for the 2011-1 Notes by the Trustee will be conclusive and binding on the Beneficial Owners of the 2011-1 Notes and the Authority absent manifest error. If the Trustee shall be unable to ascertain the LIBOR Rate or to determine the LIBOR Indexed Rate for a Tranche of the 2011-1 Notes on any Interest Rate Determination Date, the LIBOR Rate shall be ascertained and the LIBOR Indexed Rate for a Tranche of 2011-1 Notes will be determined by the Authority in accordance with the immediately succeeding paragraph. If the Authority shall fail or refuse to determine the applicable LIBOR Indexed Rate for a Tranche of the 2011-1 Notes within two Business Days after any Interest Rate Determination Date, the LIBOR Indexed Rate most recently determined for such Tranche of the 2011-1 Notes will remain in effect.

On each Interest Rate Determination Date the Trustee will (i) ascertain the LIBOR Rate and (ii) add the appropriate Spread Factor to ascertain the LIBOR Indexed Rate to be borne by each Tranche of the 2011-1 Notes.

## Principal Distributions

The aggregate outstanding principal balance will be due and payable in full for a given Tranche of 2011-1 Notes on the respective Stated Maturity Date set out in the table below:

Tranche	Stated Maturity Date
A-1	January 25, 2021
A-2	January 26, 2026
A-3	October 25, 2041

The actual date on which the final distribution on each Tranche of the 2011-1 Notes will be made may be earlier than the maturity date set forth above as a result of payments and prepayments on the Financed Student Loans or the exercise by the Authority of its option to redeem the 2011-1 Notes in whole but not in part on any Distribution Date when the Pool Balance is 10% or less of the Initial Pool Balance as more particularly described under “Optional Redemption” below.

The 2011-1 Notes are subject to payments of principal, applied pro rata within each Tranche, to be made on Distribution Dates from amounts deposited to the credit of the Principal Account for such purpose. Prior to an Event of Default, principal will be paid first on the A-1 Notes until paid in full, second on the A-2 Notes until paid in full, and third on the A-3 Notes until paid in full. See “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION – Defaults and Remedies” in Appendix D hereto.

With respect to the 2011-1 Notes, not less than two Business Days prior to each Distribution Date, the Trustee will be required to send the Securities Depository written notice of (i) the CUSIP number for each Tranche of the 2011-1 Notes; (ii) the Distribution Date; (iii) the amount of interest to be paid for each Tranche; (iv) the amount of interest per \$1,000 original principal amount thereof; (v) the remaining principal balance; (vi) the remaining principal balance per \$1,000 original principal amount thereof; and (vii) the LIBOR Indexed Rate utilized in the calculation of the amount of interest to be paid on such Distribution Date for such Tranche. Such notices shall contain the Trustee contact’s name and telephone number, and shall be sent by Electronic Means (or such other method designated by the Securities Depository) to the Securities Depository’s Dividend Department. Such notice to the Securities Depository shall clearly indicate that it relates to a “Pro Rata Pass-Through Distribution of Principal” within a Tranche.

## Optional Redemption

The 2011-1 Notes will be subject to optional redemption in whole but not in part at the option of the Authority on any Distribution Date when the Pool Balance is ten percent (10%) or less of the Initial Pool Balance. Such optional redemption may be accomplished through the issuance of refunding bonds or notes of the Authority or the sale, transfer or other disposition of Financed Student Loans. Such optional redemption shall not be authorized unless funds available to the Trustee at the time of the optional redemption will be in an amount sufficient to pay principal of and interest on all 2011-1 Notes Outstanding together with amounts necessary to pay all other costs and expenses with respect thereto. The Trustee shall make such payment in the manner described in the preceding paragraph.

## Other Provisions Relating to the 2011-1 Notes

Method and Place of Payment. The 2011-1 Notes will be issued in the form of fully registered notes in Authorized Denominations. The principal of and interest on the 2011-1 Notes will be payable in lawful money of the United States of America.

The principal of the 2011-1 Notes will be payable to the extent set forth in the 2011-1 General Resolution on the Stated Maturity Date or the Distribution Dates, as applicable, at the designated office of the Paying Agent.

The 2011-1 Notes will initially be registered in the name of Cede & Co., as nominee of the Securities Depository. The Securities Depository will act as securities depository for the 2011-1 Notes. Ownership interests in the 2011-1 Notes will initially be recorded in book-entry form by Participants of the Securities Depository, and the interest of such Participants will be recorded in book-entry form by the Securities Depository. Payments of principal of and interest on the 2011-1 Notes will be made to the Securities Depository.

In the event the Book-Entry System shall be discontinued, the Paying Agent will be required to maintain a supply of unissued blank bonds to be issued in lieu of bonds mutilated, lost, stolen, or destroyed. Such replacement bonds will be numbered in such fashion as to maintain a proper record thereof.

The Paying Agent, the Trustee, and the Authority may treat the registered owner of any 2011-1 Note as the absolute owner thereof for all purposes, whether or not such 2011-1 Note shall be overdue, and the Paying Agent, the Trustee, and the Authority will not be affected by any knowledge or notice to the contrary; and payment of the principal of and interest on such 2011-1 Note will be made only to such Noteholder, which payments will be valid and effectual to satisfy and discharge the liability of such 2011-1 Note to the extent of the sum or sums so paid. All 2011-1 Notes paid, at maturity or on earlier redemption, pursuant to the Resolution will be cancelled by the Paying Agent.

Acceptance of Terms and Conditions. By the acceptance of its 2011-1 Note, each Noteholder and each Beneficial Owner will be deemed to have agreed to all the terms and provisions of such 2011-1 Note as specified therein and in the 2011-1 Series Resolution including, without limitation, the applicable interest rates, principal payment provisions applicable to such 2011-1 Notes, and method and timing of principal and interest payments. Each Noteholder and each Beneficial Owner will be deemed further to agree (i) that if, on any date upon which one of its 2011-1 Notes is to be purchased, redeemed, or paid at maturity or earlier due date, funds are on deposit with the Paying Agent or the Trustee to pay the full amount due on such 2011-1 Note, then such Noteholder or such Beneficial Owner will have no rights under the Resolution other than to receive such full amount due with respect to such 2011-1 Note and (ii) that interest on such 2011-1 Note will cease to accrue as of such date.

Registrar; Paying Agent; Place of Payment. The Bank of New York Mellon Trust Company, National Association will be appointed Registrar and Paying Agent for the 2011-1 Notes. The principal or Redemption Price of and interest on the 2011-1 Notes will be made payable to the Securities Depository as described above under the subheading “Method and Place of Payment” above and in Appendix E “BOOK-ENTRY SYSTEM.” Subject to the provisions described below under the subheading “Book-Entry System; Recording and Transfer of Ownership of 2011-1 Notes,” principal of the 2011-1 Notes will be paid at the designated office of the Paying Agent, initially Jacksonville, Florida, or at the duly designated office of any duly appointed alternate or successor paying agent, in any coin or currency of the United States of America that at the time of payment shall be legal tender for the payment of public and private debts. Interest on the 2011-1 Notes will be paid by check or draft (or other method as described below) on each Distribution Date drawn upon the Paying Agent and mailed to the Noteholders at their addresses as they appear on the registration books maintained at the designated corporate trust office of the Registrar, initially Jacksonville, Florida, as of the Record Date. Interest payable on any Distribution Date may be paid by wire transfer, or such other method as is acceptable to the Paying Agent and the Authority, in immediately available funds to a designated account in any bank in the United States to any Noteholder owning \$1,000,000 or more in aggregate principal amount upon written request by such Noteholder received by the Trustee prior to the preceding applicable Record Date.

Book-Entry System; Recording and Transfer of Ownership of 2011-1 Notes. The 2011-1 Notes will be eligible securities for the purposes of the Book-Entry System of transfer maintained by the Securities Depository, and transfers of beneficial ownership of the 2011-1 Notes will be made only through the Securities Depository and its Participants in accordance with rules specified by the Securities Depository. Such beneficial ownership must be of an Authorized Denomination of the 2011-1 Notes multiplied by the Ending Balance Factor for the same maturity or any integral multiple. The 2011-1 Notes may also be eligible securities for distribution through Clearstream and through Euroclear. In such case, such distributions will be credited to the cash accounts of Clearstream participants or Euroclear participants, as applicable, in accordance with the relevant system's rules and procedures. See Appendix E "BOOK-ENTRY SYSTEM" and Appendix F "GLOBAL CLEARANCE, SETTLEMENT, AND TAX DOCUMENTATION PROCEDURES."

The 2011-1 Notes will be issued in fully registered form, with one certificate for each Tranche of the 2011-1 Notes, in the name of Cede & Co., as the nominee of the Securities Depository. When any principal of or interest on the 2011-1 Notes shall become due (or principal is otherwise paid), the Authority will be required to transmit or cause the Trustee to transmit to the Securities Depository an amount equal to such installment of principal and interest, and, with respect to the 2011-1 Notes specify the dollar amount of principal and interest per \$1,000 original face value. Such payments will be made to Cede & Co. or other nominee of the Securities Depository as long as it is the owner of record on the applicable Record Date. Cede & Co. or other nominee of the Securities Depository will be considered to be the owner of the 2011-1 Notes so registered for all purposes of the 2011-1 Series Resolution, including, without limitation, payments as aforesaid and receipt of notices and exercise of rights of the Noteholders.

The Securities Depository is expected to maintain records of the positions of Participants in the 2011-1 Notes, and the Participants and persons acting through Participants are expected to maintain records of the Beneficial Owners in the 2011-1 Notes. The Authority and the Trustee will make no assurances that the Securities Depository and its Participants will act in accordance with such rules or expectations on a timely basis, and the Authority and the Trustee will have no responsibility for any such maintenance of records or transfer of payments by the Securities Depository to its Participants, or by the Participants or persons acting through Participants to the Beneficial Owners.

If (a) the Securities Depository shall determine not to continue to act as Securities Depository for the 2011-1 Notes, or (b) the Authority shall advise the Securities Depository and the Trustee of the Authority's determination that the Securities Depository is incapable of discharging its duties, the Authority will be required to attempt to retain another qualified securities depository to replace the Securities Depository. Upon receipt by the Authority or the Trustee of the 2011-1 Notes together with an assignment duly executed by the discharged Securities Depository, the Authority will execute and deliver to the successor Securities Depository 2011-1 Notes of the same principal amount, interest rate and maturity.

If the Authority shall be unable to retain a qualified successor to the Securities Depository or the Authority shall determine that it is in the best interest of the Authority not to continue the Book-Entry System of transfer or that the interest of the Beneficial Owners of the 2011-1 Notes might be adversely affected if the Book-Entry System of transfer shall be continued, and shall make provision to so notify Beneficial Owners of the 2011-1 Notes by transmitting by Electronic Means an appropriate notice to the Securities Depository, upon receipt by the Authority of the 2011-1 Notes together with an assignment duly executed by the Securities Depository, the Authority, at its expense, will be required, subject to the limitations of the 2011-1 Series Resolution, to execute, and cause to be authenticated and delivered pursuant to the instructions of the Securities Depository, 2011-1 Notes in fully registered form, in substantially the form set forth in the 2011-1 Series Resolution, in Authorized Denominations.

## ESTIMATED USES AND APPLICATION OF 2011-1 NOTE PROCEEDS

The proceeds of the 2011-1 Notes, together with other available funds, will be used and expended to (i) refund the Prior Bonds, (ii) fund deposits to certain Funds and Accounts and (iii) pay certain Costs of Issuance.

The Prior Bonds were issued pursuant to the Prior Resolutions. The Prior Resolutions do not secure the 2011-1 Notes. Certain of the student loans financed with the proceeds of the Prior Bonds will be released from the trust estates created by the Prior Resolutions and, upon transfer to the 2011-1 General Resolution, shall become Financed Student Loans constituting a significant portion of the Trust Estate.

The Authority estimates the uses of the proceeds of the 2011-1 Notes as follows:

Refunding or Defeasance of Prior Bonds	\$423,727,167
Deposit to Debt Service Reserve Fund	1,176,266
Deposit to Capitalized Interest Fund	2,500,000
Costs of Issuance*	<u>2,955,000</u>
 TOTAL	 <u>\$430,358,433</u>

\* Includes Underwriters' fee, legal, financing and rating agency fees, printing costs and other costs of issuance.

On the Issue Date, approximately \$401,727,167 of the proceeds from the sale of the 2011-1 Notes will be deposited to an escrow fund to defease the Auction Rate Bonds and approximately \$22,000,000 of the proceeds from the sale of the 2011-1 Notes will be used to retire the Privately Placed Bonds. Upon the occurrence thereof, Student Loans having an aggregate principal balance of approximately \$466,543,976 as of the Cutoff Date will be released from the trust estates created by the Prior Resolutions and transferred to the Trust Estate. See "CHARACTERISTICS OF THE FINANCED STUDENT LOANS" herein. As of the date hereof, the exact amount required to redeem the Auction Rate Bonds is not determinable. Amounts deposited to the escrow fund for the Auction Rate Bonds and not required to redeem the Auction Rate Bonds will be applied to the redemption of additional Privately Placed Bonds or will be transferred to the Authority for use for any lawful purpose.

## THE FINANCING PROGRAM

The 2011-1 Notes will be issued and secured pursuant to the 2011-1 General Resolution. The 2011-1 Notes will be the first and only Notes issued pursuant to the 2011-1 General Resolution and secured by the Trust Estate.

Upon issuance of the 2011-1 Notes and the refunding of the Prior Bonds, the Authority will have approximately \$1.9 billion of student loan bonds and notes outstanding consisting of (1) approximately \$1.4 billion of LIBOR-based floating rate bonds and notes and (2) approximately \$528 million of tax-exempt variable rate demand bonds supported by bank-issued letters of credit that expire in the last quarter of 2011. The Authority intends to refinance such variable rate demand bonds. The Authority also has one financing facility established pursuant to a federal program. The 2011-1 Notes are not secured by the trust estates of the Authority securing other indebtedness.

## THE TRUST ESTATE

**As provided in Sections 116-202 and 116-209.12 of the General Statutes of North Carolina, as amended, the 2011-1 Notes do not constitute a recourse debt or general obligation of the State of North Carolina (the "State") or any political subdivision thereof, but are payable solely from the Trust Estate created by the 2011-1 General Resolution. Neither the faith and credit nor the taxing power of the State or any political subdivision thereof is pledged to the payment of the principal of or interest on the 2011-1 Notes. The Authority has no taxing power.**

### General

The 2011-1 Notes are limited obligations of the Authority, secured by and payable solely from the funds and assets held in the discrete Trust Estate. Under the 2011-1 General Resolution, the Trust Estate means, together with any proceeds, all rights, title and interest of the Authority in the following:

- (a) the Financed Student Loans;
- (b) interest payments with respect to the Financed Student Loans made on or behalf of the borrowers;
- (c) Recoveries of Principal;
- (d) any Special Allowance Payments;
- (e) all Interest Subsidy Payments;
- (f) any Backup Servicing Agreement, any Guaranty Agreement and any Custodian Agreement;
- (g) all moneys and securities from time to time held by the Trustee under the terms of the 2011-1 General Resolution in various Funds and Accounts (excluding moneys and securities held in the Department Reserve Fund); and
- (h) 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 2011-1 General Resolution.

For a description of the Funds and Accounts established by the 2011-1 General Resolution, see Appendix D “SUMMARY OF CERTAIN PROVISIONS OF THE 2011-1 GENERAL RESOLUTION.”

The pledge of the Trust Estate made in the 2011-1 General Resolution and the provisions, covenants, and agreements set forth in the 2011-1 General Resolution to be performed by the Authority will be for the equal benefit, protection, and security of the Noteholders.

**Parity Percentage**

On the Issue Date, after giving effect to the issuance of the 2011-1 Notes and the transfers to take place on the Issue Date, the Parity Percentage will be approximately 106.6% as estimated below.

Initial Pool Balance on Financed Student Loans	\$470,506,529
Amounts in the Debt Service Reserve Fund	1,176,266
Amounts in the Capitalized Interest Fund	<u>2,500,000</u>
Adjusted Pool Balance	\$474,182,795
Principal Amount of the 2011-1 Notes	<u>\$445,000,000</u>
$\$474,182,795 \div \$445,000,000$	106.6%

“Parity Percentage” means, for any given date, the Adjusted Pool Balance divided by the aggregate principal amount of the 2011-1 Notes Outstanding after giving effect to any payments of principal to be made on such date.

“Adjusted Pool Balance” for a given Distribution Date means the sum of the Pool Balance as of the end of the most recent Collection Period, the Value of the Debt Service Reserve Fund and the Value of the Capitalized Interest Fund, after giving effect to any withdrawals from each of such Funds since the end of the last Collection Period.

“Pool Balance” means for any date the aggregate Principal Balance of all Financed Student Loans on that date plus accrued interest that is expected to be capitalized as authorized under the Higher Education Act.

“Initial Pool Balance” means \$470,506,529, which is the Pool Balance as of the Cutoff Date, of the Student Loans to become Financed on the Issue Date. The Initial Pool Balance consists of a principal balance of \$466,543,976 and accrued interest expected to be capitalized of \$3,962,553.

**The Collection Fund**

The Trustee will establish the Collection Fund as part of the Trust Estate. All moneys received by or on behalf of the Authority or the Servicer as assets of, or with respect to, the Trust Estate will be deposited promptly, but no later than two (2) Business Days from the receipt thereof, to the credit of the Collection Fund. Money on deposit in the Collection Fund will be used as described below under “Flow of Funds.”

The Collection Periods will be three-month periods ending on the last day of March, June, September and December. The initial Collection Period, however, will begin on the Issue Date and end on June 30, 2011.



## Flow of Funds

Not later than the fifteenth (15<sup>th</sup>) day of the month following the last day of each Collection Period, the Authority, or the Administrator, will be required to notify the Trustee of the amount of the Pool Balance and the Debt Service Reserve Requirement as of the end of the immediately preceding Collection Period, as well as the Department Reserve Fund Requirement and the Operating Fund Requirement, each based on the most recent information available when such amounts are provided to the Trustee.

“Available Funds” means the sum of, to the extent not previously distributed: (a) any amount by which the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, (b) any amount by which the Department Reserve Fund exceeds the Department Reserve Fund Requirement, (c) any amount by which the Capitalized Interest Fund exceeds the Step-down Schedule, (d) any amount by which the Operating Fund exceeds the Operating Fund Requirement, (e) all funds in the Collection Fund having been received by the Servicer with respect to the Financed Student Loans for the immediately preceding Collection Period, as certified by the Servicer to the Trustee by Electronic Means, and (f) all interest earned on Investment Obligations having been deposited into the Collection Fund during the immediately preceding Collection Period.

Not later than the sixteenth (16<sup>th</sup>) day of the month following the last day of each Collection Period (as well as any additional date for which the Authority directs the Trustee in a Certificate), using the Available Funds, the Trustee shall make deposits to the credit of the Funds and Accounts, in the amounts and in order of priority as follows:

(i) First, to the Department Reserve Fund, an amount that, when added to the amount therein will equal the Department Reserve Fund Requirement.

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

(iii) Third, to the Interest Account, an amount, when added to any amount on deposit in the Interest Account on the day of calculation, would be equal to the interest due on all outstanding 2011-1 Notes on the immediately succeeding Distribution Date as calculated by the Trustee;

(iv) Fourth, to the Debt Service Reserve Fund, so much as may be required so that the amount therein shall equal the Debt Service Reserve Requirement.

(v) Fifth, to the Principal Account, the Principal Distribution Amount, for the payment of principal of the 2011-1 Notes as calculated by the Trustee.

(vi) Sixth, to pay any indemnity or reimbursement amounts payable by the Authority under any Transaction Document including, without limitation, any such amounts payable to Fiduciaries in accordance with the 2011-1 General Resolution or other Operating Costs not previously paid. Such amounts shall not exceed \$150,000 in the aggregate per annum in the absence of an Event of Default.

(vii) Seventh, to the Principal Account, any remaining funds available for the payment of principal of the 2011-1 Notes as calculated by the Trustee.

“Principal Distribution Amount” means, with respect to any Distribution Date, the amount, if any, by which (a) the aggregate principal amount of 2011-1 Notes Outstanding as of the end of the most recent Collection Period exceeds (b) the Adjusted Pool Balance divided by 120%; but not less than the amount of any principal amount due if such Distribution Date is also a Stated Maturity Date or 2011-1 Notes have been duly called for redemption on such Distribution Date.

## No Recycling

No recycling of revenues into additional Student Loans will be permitted under the 2011-1 General Resolution.

## The Program Fund

A portion of the proceeds of the 2011-1 Notes will be deposited into the Program Fund and used to pay the costs of issuing the 2011-1 Notes.

## The Operating Fund

The Trustee will establish the Operating Fund as part of the Trust Estate. Money on deposit in the Operating Fund will be used to pay all Operating Costs. Such Operating Costs will not be increased beyond the level detailed below unless the Trustee shall first receive a Rating Agency Condition from Fitch and a Cash Flow Certificate. The Authority will provide 30-day prior written notice to S&P of any increase in Operating Costs. The Operating Fund will be funded as described above under “Flow of Funds” in an amount equal to the Operating Fund Requirement. Amounts in the Operating Fund in excess of the Operating Fund Requirement will be transferred to the Collection Fund on a quarterly basis.

The Operating Costs payable from the Operating Fund are set forth in the table below.

<b>Operating Costs (per annum except otherwise noted)</b>	
Servicing Fees <sup>1</sup>	0.63% of the average daily Principal Balance
Administrator Fees <sup>1</sup>	0.02% of the average daily Principal Balance
Other Operating Costs <sup>2</sup>	\$100,000
Servicing conversion fee	\$200,000 (one-time upon conversion of servicing)

<sup>1</sup> The Authority has the flexibility to change the break-down of these components as long as the aggregate does not exceed 0.65% of the average daily Principal Balance.

<sup>2</sup> Consists of Trustee fees, Rating Agency surveillance fees, Backup Servicer fees and miscellaneous.

## The Debt Service Fund

The Trustee will establish a Debt Service Fund as part of the Trust Estate and within the Debt Service Fund, a Principal Account and an Interest Account. Moneys in the Interest Account will be applied to pay interest on the 2011-1 Notes. Moneys in the Principal Account will be applied to pay the principal amount of the 2011-1 Notes or to pay the Redemption Price of the 2011-1 Notes to be redeemed on a Distribution Date.

## The Debt Service Reserve Fund

The Debt Service Reserve Fund is subject to a minimum amount (the “Debt Service Reserve Requirement”) equal to the greater of (i) 0.25% of the Pool Balance on any particular date of calculation or (ii) 0.10% of the Initial Pool Balance. Moneys in the Debt Service Reserve Fund will be used for the payment of principal of and interest on the 2011-1 Notes if there would otherwise be a default in payment. To the extent the amount in the Debt Service Reserve Fund falls below the Debt Service Reserve Requirement, the Debt Service Reserve Fund will be replenished on each Distribution Date from funds available in the Collection Fund as described above. Funds on deposit in the Debt Service Reserve

Fund in excess of the Debt Service Reserve Requirement will be transferred to the Collection Fund on a quarterly basis.

The Debt Service Reserve Fund is intended to enhance the likelihood of timely distributions of interest to the Noteholders and to decrease the likelihood that the Noteholders will experience losses. In some circumstances, however, the Debt Service Reserve Fund could be reduced to zero. If at any time the balance in the Debt Service Reserve Fund, together with the balance in the other Funds and Accounts under the 2011-1 General Resolution (excluding the Operating Fund and the Department Reserve Fund) shall be sufficient to retire all Notes Outstanding and subject to retirement, such balance may be applied at the direction of the Authority to retire all Notes Outstanding.

Amounts deposited in all Funds and Accounts created and maintained under the 2011-1 General Resolution (other than the Department Reserve Fund) will be used for the payment of principal of and interest on the 2011-1 Notes if there would otherwise be a default in payment as a result of a shortfall in the Debt Service Fund. The order of Funds and Accounts from which moneys are to be transferred in the event that deposits of moneys in the Collection Fund to the Interest Account and Principal Account are insufficient to avoid a default in payment of principal of or interest on the 2011-1 Notes will be the Capitalized Interest Fund, the Collection Fund, the Principal Account or Interest Account of the Debt Service Fund, the Program Fund, the Debt Service Reserve Fund, and then the Operating Fund.

**The Capitalized Interest Fund**

The Trustee will establish a Capitalized Interest Fund as part of the Trust Estate. To the extent there are insufficient moneys otherwise available in the Funds and Accounts described herein in items (i) through (iii) in “Flow of Funds” above to make one or more of the transfers or payments required from such Funds and Accounts and amounts are on deposit in the Capitalized Interest Fund, moneys in the Capitalized Interest Fund will be used to make one or more of such transfers. Moneys withdrawn from such fund will not be replenished. To the extent amounts in the Capitalized Interest Fund exceed the maximum amounts on the respective dates set forth in the Step-down Schedule below, the Trustee will be required to transfer such excess to the Collection Fund.

<b>STEP-DOWN SCHEDULE</b>	
<b>Date</b>	<b>Maximum Amount</b>
January 15, 2012	\$1,500,000
July 15, 2012	500,000
July 15, 2013	0

**Joint Sharing Agreement**

Due to a U.S. Department of Education policy limiting the granting of eligible lender identification numbers, billings submitted to the U.S. Department of Education for origination fees, Interest Subsidy Payments, and Special Allowance Payments with respect to trust estates of the Authority other than the Trust Estate may be consolidated with billings for the payments for Financed Student Loans using the same lender identification number. U.S. Department of Education payments are made in lump sum form. The same may be applicable with respect to payments by a Guaranty Agency. In addition, if amounts are owed from the Authority’s other unrelated trust estates to the U.S. Department of Education, U.S. Department of Education lump sum payments may be offset by these amounts and therefore may affect other trust estates using the same eligible lender number. The Authority, the Trustee and the Foundation have agreed, in a joint sharing agreement to allocate properly and to pay to or from the applicable trust estate amounts that should be reallocated to reflect payment on the FFELP loans of each such trust estate.

## CHARACTERISTICS OF THE FINANCED STUDENT LOANS

The following charts provide summary information as of the Cutoff Date regarding the Financed Student Loans. Certain totals in the charts may not foot due to rounding. Consolidation Loans having both subsidized and unsubsidized components are listed as separate loans for purposes of the following tables. As a result, there is no change to principal balance but the loan count increases by 12,076 loans.

Certain totals in the tables may not foot due to rounding.

### Composition of the Student Loans

Current Principal Balance	\$466,543,976
Number of Borrowers	23,170
Average Current Principal Balance Per Borrower	\$20,136
Average Current Principal Balance Per Borrower—Consolidation Loans	\$26,835
Average Current Principal Balance Per Borrower—Non-Consolidation Loans	\$6,347
Number of Loans <sup>1</sup>	41,073
Average Current Principal Balance Per Loan	\$11,359
Weighted Average Remaining Term to Maturity <sup>2</sup>	225 Months
Weighted Average Payments Made <sup>3</sup>	43 Months
Weighted Average Annual Student Loan Interest Rate <sup>4</sup>	4.42%
Weighted Average Special Allowance Repayment Margin to 3-Month Commercial Paper	2.53%
Weighted Average Special Allowance Repayment Margin to 91-Day T-Bill	3.09%

<sup>1</sup> Consolidation Loans having both subsidized and unsubsidized components are listed as separate loans, resulting in an increase in the loan count of 12,076 loans.

<sup>2</sup> Determined as the difference from the Cutoff Date to the stated maturity date of the applicable loan, including any remaining school period, grace period, current deferment or forbearance periods and repayment period, but without giving effect to any deferment or forbearance periods that may be granted in the future.

<sup>3</sup> Determined as the difference in original repayment term and remaining repayment term.

<sup>4</sup> Adjusted for interest rate resets effective on July 1, 2010 and interest rate reductions earned by borrowers and applicable interest rate ceilings in effect.

### Loan Type Distribution

<u>Loan Type</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Stafford Loans - Subsidized	\$ 21,860,232	4.7%	6,737
Stafford Loans - Unsubsidized	24,607,323	5.3	6,350
PLUS Loans – Graduate/Professional	700,673	0.2	69
PLUS Loans - Parent	1,765,864	0.4	208
Consolidation—Subsidized	184,335,003	39.5	13,209
Consolidation—Unsubsidized	<u>233,274,881</u>	<u>50.0</u>	<u>14,500</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

### School Type Distribution

<u>School Type</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Four Year	\$438,633,153	94.0%	37,665
Two Year	10,978,628	2.4	1,811
For Profit	6,730,943	1.4	1,105
Out of Country/Unknown	<u>10,201,251</u>	<u>2.2</u>	<u>492</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

### Loan Status Distribution

<u>Status</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
School	\$ 26,468,408	5.7%	8,097
Grace	408,014	0.1	121
Deferment	53,230,821	11.4	4,275
Forbearance	40,966,966	8.8	2,995
Repayment			
First Year	26,933,331	5.8	3,038
Second Year	32,567,021	7.0	2,773
Third Year	54,065,198	11.6	3,713
More than 3 years	231,021,808	49.5	15,878
Claim	<u>882,409</u>	<u>0.2</u>	<u>183</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

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**Number of Months Remaining Until Scheduled Maturity Distribution**

<u>Months Remaining<sup>1</sup></u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
49 to 60	\$ 12,219	*	4
61 to 72	11,270	*	11
73 to 84	23,814	*	10
85 to 96	78,626	*	32
97 to 108	686,206	0.1%	217
109 to 120	3,539,712	0.8	1,011
121 to 132	14,697,325	3.2	3,039
133 to 144	34,567,212	7.4	6,123
145 to 156	31,064,384	6.7	4,612
157 to 168	29,170,487	6.3	3,613
169 to 180	22,615,731	4.8	2,443
181 to 192	29,769,831	6.4	2,526
193 to 204	30,900,063	6.6	2,332
205 to 216	29,694,886	6.4	2,028
217 to 228	27,921,116	6.0	1,714
229 to 240	24,739,709	5.3	1,441
241 to 252	20,978,388	4.5	1,112
253 to 264	21,485,616	4.6	1,076
265 to 276	26,492,287	5.7	1,570
277 to 288	29,997,092	6.4	2,129
289 to 300	25,770,773	5.5	2,081
Greater than 300	<u>62,327,227</u>	<u>13.4</u>	<u>1,949</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

<sup>1</sup>Determined as the difference from the Cutoff Date to the stated maturity date of the applicable loan, including any remaining school period, grace period, current deferment or forbearance periods and repayment period, but without giving effect to any deferment or forbearance periods that may be granted in the future.

\*Represents a percentage greater than 0% but less than 0.05%.

**Weighted Average Months Remaining in Status**

<u>Status</u>	<u>Deferment</u>	<u>Forbearance</u>	<u>School</u>	<u>Grace</u>	<u>Repayment</u>
School			20.4	6.0	120.0
Grace				4.4	126.5
Deferment	16.3				235.9
Forbearance		2.8			243.7
Repayment					224.9

### Days Delinquent Distribution

<u>Days Delinquent</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
0 to 30	\$440,543,394	94.4%	38,739
31 to 60	9,633,779	2.1	863
61 to 90	5,933,728	1.3	522
91 to 120	3,460,712	0.7	289
121 and above	<u>6,972,363</u>	<u>1.5</u>	<u>660</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

### Special Allowance Payments (SAP) Interest Rate Index Distribution

<u>SAP Interest Rate Index</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
90-day CP Index <sup>1</sup>	\$457,848,393	98.1%	40,591
91-day T-Bill Index	<u>8,695,583</u>	<u>1.9</u>	<u>482</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

<sup>1</sup>\$67,650 not eligible for Special Allowance Payments.

### Borrower Interest Rate Distribution

<u>Interest Rate Type</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Fixed	\$449,885,472	96.4%	36,397
Variable	<u>16,658,503</u>	<u>3.6</u>	<u>4,676</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

<u>Interest Rate<sup>1</sup></u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Less than 2.00%	\$61,700,728	13.2%	5,955
2.000% to 2.999%	62,634,270	13.4	5,975
3.000% to 3.999%	76,742,573	16.4	5,232
4.000% to 4.999%	90,900,788	19.5	6,735
5.000% to 5.999%	48,428,077	10.4	4,060
6.000% to 6.999%	66,520,325	14.3	9,794
7.00% or greater	<u>59,617,214</u>	<u>12.8</u>	<u>3,322</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

<sup>1</sup>Adjusted for interest rate resets effective on July 1, 2010 and interest rate reductions earned by borrowers and applicable interest rate ceilings in effect.

**Current Balance Distribution**

<u>Range of Current Principal Balance (in dollars)</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Borrowers</u>
0 to 4,999	\$12,764,979	2.7%	4,588
5,000 to 9,999	23,396,721	5.0	3,137
10,000 to 14,999	42,129,285	9.0	3,351
15,000 to 19,999	57,818,507	12.4	3,315
20,000 to 24,999	53,912,566	11.6	2,421
25,000 to 29,999	43,179,400	9.3	1,580
30,000 to 34,999	38,363,187	8.2	1,185
35,000 to 39,999	32,224,973	6.9	862
40,000 to 44,999	29,649,698	6.4	698
45,000 to 49,999	23,269,588	5.0	491
50,000 to 54,999	20,105,000	4.3	383
55,000 to 59,999	14,957,945	3.2	261
60,000 to 64,999	13,126,563	2.8	210
65,000 to 69,999	10,869,013	2.3	161
70,000 to 74,999	6,950,162	1.5	96
75,000 and above	<u>43,826,387</u>	<u>9.4</u>	<u>431</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>23,170</u>

**Date of Disbursement Distribution**

**(Dates Correspond to Changes in Special Allowance Support Level)**

<u>Date of Disbursement<sup>1</sup></u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Prior to April 1, 2006	\$220,562,263	47.3%	17,570
April 1, 2006 to September 30, 2007	160,024,516	34.3	14,175
October 1, 2007 and after	<u>85,957,196</u>	<u>18.4</u>	<u>9,328</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

<sup>1</sup>For Student Loans made on or after April 1, 2006, if the stated interest rate is higher than the special allowance support level, the holder of the FFELP loan must credit the difference to the Department of Education. Student Loans made on or after October 1, 2007 have a lower special allowance support level than those made prior to such date, but eligible not-for-profit holders receive a higher special allowance support level than for-profit holders.

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**Date of Disbursement Distribution**  
**(Dates Correspond to Changes in Guaranty Percentage)**

<u>Date of Disbursement<sup>1</sup></u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
October 1, 1993 to June 30, 2006	\$266,473,506	57.1%	21,351
July 1, 2006 and after	<u>200,070,470</u>	<u>42.9</u>	<u>19,722</u>
TOTAL	<u>\$466,543,976</u>	<u>100.0%</u>	<u>41,073</u>

<sup>1</sup>Student Loans made prior to October 1, 1993 are 100% guaranteed. Student Loans made October 1, 1993 through June 30, 2006 are at least 98% guaranteed. Student Loans made July 1, 2006 and after are at least 97% guaranteed.

All of the Financed Student Loans are guaranteed by the Authority as Guaranty Agency and serviced by the Foundation.

**Repayment Incentives to Borrowers and Borrower Benefits**

Since 1996, the Authority has offered repayment incentives and other benefits to borrowers under the NCFFELP. In addition, the Authority offers an incentive for certain eligible North Carolina public school teachers and counselors by offering the forgiveness of specified loan payments for those who meet certain requirements. As of the Cutoff Date, approximately 86% of the Financed Student Loans to be included in the Trust Estate were eligible for a 0.25% interest rate reduction for using automatic bank draft, a 0.50% interest rate reduction at 24 and 36 months for on-time payments and a 1% reduction at 48 months for on-time payments for a potential cumulative interest reduction of 2.25%. The remainder of the Financed Student Loans are subject to various other benefit plans. As of the Cutoff Date, the weighted average interest rate reduction for all of the Financed Student Loans was 0.60%.

Although such repayment incentives and borrower benefits may decrease the payments to be received from the Financed Student Loans, the Authority does not expect these repayment incentives and borrower benefits to impair its ability to make payments of principal of and interest on the 2011-1 Notes when due.

**THE AUTHORITY**

The Authority was created under Chapter 1180 of the 1965 Session Laws of North Carolina, as amended, being Sections 116-201 to 116-209.55, inclusive, of the General Statutes of North Carolina (the “Act”), and is a political subdivision of the State governed by a Board of Directors (the “Board”) consisting of nine members, seven of whom are appointed by the Governor of the State for four-year terms and two who serve by virtue of their positions with the State’s higher education systems. 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. The Authority’s current website is [www.ncseaa.edu](http://www.ncseaa.edu).

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 North Carolina and to administer other programs of student assistance for resident students, students who attend postsecondary institutions in North Carolina 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 North Carolina 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 Student Loans and (ii) a trust fund (herein referred to as the “Reserve Trust Fund”) which is used by the Authority to insure such Student 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”). See “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” in Appendix B. Pursuant to such agreements, the Authority may guarantee loans held by any institution in North Carolina 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. The Foundation is an eligible lender and has served as the central loan originator and continues to serve as servicer for such loans. See “THE FOUNDATION” herein.

For a discussion of the guarantee and reinsurance arrangements relating to such Student Loans, see the “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM” in Appendix B.

### **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	President/Education Consultant, Murphy Ferren Consulting, Inc.
Martha J. Beasley	Member	Director of Accreditation and Standards Mayland Community College

<u>Name</u>	<u>Title</u>	<u>Occupation</u>
Carolyn J. Edwards	Member	Retired Principal Pitt County Schools
Robert S. Misenheimer	Member	Retired Principal Cabarrus County Schools
James O. Roberts	Member	Vice President & Treasurer Campbell University
Jennifer H. Haygood	Member	Vice President & Chief Financial Officer, North Carolina Community College System (Ex-Officio)
Charles E. Perusse*	Member	Vice President for Finance, The University of North Carolina (Ex-Officio)
Steven E. Brooks	Secretary	Authority Executive Director (Ex-Officio)

\*Took office upon assuming his position with the University of North Carolina on March 1, 2011. Mr. Perusse has not participated in any of the proceedings of the Authority relating to the 2011-1 Notes.

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 in 1997, he held positions in student financial aid administration at Wake Forest University and Louisburg College in North Carolina. He is a past Trustee of the College Board, a past Chair of the College Scholarship Service Assembly and Council, and a past Chair of the National Council of Higher Education Loan Programs (“NCHELP”). Dr. Brooks recently served as co-chair of the College Board’s *Task Force on College Access for Students from Low Income Backgrounds* and as a member of the College Board’s *Rethinking Student Aid* panel as well as serving as chair of the NCHELP *Guaranty Agency College Access Initiative*. He currently serves on the Board of Directors for *Mapping Your Future*. 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 and Southern Associations of Student Financial Aid Administrators.

Julia R. Hoke joined the Authority in June 1998 as Director of 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. She received her Juris Doctor from Wake Forest University in 1986, where she served as Research Editor of the Wake Forest Law Review. She was admitted to the State Bar in August 1986. Ms. Hoke is an active member of the Legal Affairs Committee of NCHELP, the National Association of College & University Attorneys, the Legal and Regulatory Affairs Committee of the College Savings Plan Network, and currently serves as Chair of the Education Law Section of the North Carolina Bar Association.

Iona W. Duckworth joined the Authority in January of 1987 in the Claims and Accounting Department. She was promoted to Director of Administrative Services and Quality Control in 2004. She holds a Bachelor of Science degree from NC Wesleyan College, 2004 and an A.A.B. degree from

Youngstown State University, 1974. Ms. Duckworth is an active member of the Chief Financial Officers Committee of NCHELP.

Wayne E. Johnson joined the Authority in April 1999 as Director of Guaranty Agency and Repayment 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. He graduated from Northwestern University in 1980 with a Bachelor of Arts degree and received his Juris Doctor from Wake Forest University in 1984.

Elizabeth V. McDuffie is the Director for Grants, Training and Outreach of the Authority and an assistant secretary to the Board. She holds an M.B.A. degree from Meredith College, 2000, 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 serving on the executive boards of the North Carolina Association of Student Financial Aid Administrators, the Southern Association of Student Financial Aid Administrators and the National Association of State Student Grant and Aid Programs and serving as a member of the College Scholarship Service Assembly Council.

### **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. In addition, the Authority 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 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 December 31, 2010, the outstanding principal amount of student and parent loans guaranteed by the Authority, and originated and serviced by the Foundation was approximately \$3.3 billion (this total includes loans both within the Portfolio and outside the Portfolio).

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, but prior to July 1, 2006. For loans first disbursed on or after July 1, 2006 but before July 1, 2010, the reimbursement rate is 97%. No loans with a first disbursement date after June 30, 2010 will be originated under the Student Loan Insurance Program as a result of the enactment on March 30, 2010 of the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152). Loans made under NCFFELP, however, continue to be guaranteed by the Authority and reinsured by the federal government, as discussed herein. See Appendix B "DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Federal Insurance and Reinsurance and Reimbursement of Loan Holders."

The Authority, as a guaranty agency under the Higher Education Act, must pay a lender for a defaulted loan prior to submitting a claim to the Secretary for reimbursement. The Higher Education Act requires that the Authority submit a request for reimbursement to the Secretary within 30 days from the date the claim is paid. Reimbursement from the Secretary occurs approximately 45 days from the time that the Authority requests reimbursement. Under present practice, after the Secretary reimburses the Authority for a default claim paid on a Student Loan, the Authority must continue to seek repayment from

the borrower. See Appendix B “DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM – Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies.” The following are default rates for loans insured by the Authority for the past five federal fiscal years:

<u>Federal Fiscal Year Ended</u>	<u>Default Claims Paid*</u>	<u>Default Trigger Rate*</u>
2006	\$16,402,793	1.13%
2007	18,572,958	1.00
2008	31,759,190	1.60
2009	35,452,804	1.36
2010	34,880,523	1.31

\* “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 U.S. 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 the Authority’s receivable recovery rates for the past five federal fiscal years:

<u>Federal Fiscal Year Ended September 30</u>	<u>Federal Fiscal Year Recoveries</u>	<u>Receivable Recovery Rate</u>
2006	\$14,775,122	36.64%
2007	13,297,752	26.26
2008	15,822,432	27.48
2009	18,234,782	23.07
2010	26,311,906	24.92

A guaranty agency’s receivable recovery rate is based upon total recoveries received during the current federal fiscal year divided by the federal receivables as of the end of the previous fiscal year. Recoveries include principal, interest and fees received from: rehabilitated loan sales, consolidated loan sales, default collections, administrative wage garnishment collections, tax offset collections, litigation and bankruptcy collections.

## 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 original principal amount of the outstanding insured loans. 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.

A guaranty agency's reserve ratio is determined by dividing its federal fund (in the case of the Authority, Reserve Trust Fund) balance by the original principal amount of outstanding loans it has agreed to guarantee. The following table sets forth the Authority's reserve ratio as of the end of recent federal fiscal years:

<u>Federal Fiscal Year Ended September 30</u>	<u>Original Principal Amount of Outstanding Loans</u>	<u>Federal Fund Balance</u>	<u>Reserve Ratio</u>
2006	\$2,983,225,842	\$ 7,547,855	0.253
2007	3,367,883,241	10,042,038	0.298
2008	3,959,974,590	12,932,139	0.327
2009	4,648,256,205	18,890,345	0.406
2010	3,725,263,953	21,372,755	0.574

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 2011-1 Notes. 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.**

## THE FOUNDATION

The Foundation, a nonprofit corporation, was chartered in 1955 by the Governor of the State and two other State officials under Chapter 55A of the General Statutes of North Carolina for the purpose of assisting 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 NCFFELP. The Foundation has served as an "eligible lender" pursuant to Section 435(d)(1)(D) of the Higher Education Act since enactment. See Appendix B "DESCRIPTION OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."

The Foundation, as agent and independent contractor for the Authority, has served as the central loan originator and continues to serve as the servicer for the NCFFELP. 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 as of November 1, 2008, as further amended as of December 1, 2008, as supplemented by the letter agreement referenced in "Foundation as Administrator and Servicer" below (as amended and supplemented, the "Amended and Restated Contract"), the Foundation acts for the Authority in servicing and administering certain aspects of the NCFFELP.

Since its inception and through December 31, 2010, the Foundation has serviced more than 2.1 million loans totaling approximately \$9.4 billion to more than 602,000 student and parent borrowers with funds from the Foundation, the Authority, banks in the State and other financial institutions, educational institutions, and certain other investors. As of September 30, 2010, the combined net assets (total assets minus total liabilities) of the Foundation's general operating fund, which includes property and equipment, were approximately \$30.5 million. As of December 31, 2010, the principal amount of student and parent loans being serviced by the Foundation was approximately \$3.5 billion.

Shown in the table below is information regarding guarantee claims filed by the Foundation for all loans serviced by the Foundation (inside and outside the Portfolio) for the last five calendar years. There can be no assurance that the Foundation's experience, as reflected in the table, will not be materially different in the future.

<u>Calendar Year</u>	<u>Total Claims Filed<sup>(1)</sup></u>	<u>Gross Reject Amount<sup>(1)</sup></u>	<u>Gross Reject Rate</u>	<u>Cure Amount<sup>(2)</sup></u>	<u>Cure Rate</u>	<u>Net Reject Amount</u>	<u>Net Reject Rate</u>
2006	\$25,018,670	\$ 0	0.00%	\$ 0	0.00%	\$0	0.00%
2007	31,748,345	0	0.00	0	0.00	0	0.00
2008	51,113,655	22,934	0.04	22,934	100.00	0	0.00
2009	49,951,355	23,989	0.05	23,989	100.00	0	0.00
2010	<u>50,106,088</u>	<u>0</u>	<u>0.00</u>	<u>0</u>	<u>0.00</u>	<u>0</u>	<u>0.00</u>
	<u>\$207,938,113</u>	<u>\$46,923</u>	<u>0.02%</u>	<u>\$46,923</u>	<u>100.00%</u>	<u>\$0</u>	<u>0.00%</u>

<sup>(1)</sup> Includes 100% of principal claims, rather than only the guaranteed portion. Also includes deaths, disabilities, and bankruptcies. Rehabilitations and repurchases are not netted from the total claims filed.

<sup>(2)</sup> Amount of the rejects which had been cured as of December 31, 2010.

### **The Amended and Restated Contract**

Pursuant to the Amended and Restated Contract, the Foundation acts for the Authority in administering certain aspects of the NCFFELP. 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 Finance Program and the Student Loan Insurance Program as well other programs of the Authority. Among such functions and services to be provided by the Foundation with respect to the Student Loan Finance Program and the Student Loan Insurance Program are:

- (1) the safekeeping and custody of promissory notes acquired through the making or acquisition of Student 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;
- (2) the maintenance of and access to full and complete records (whether electronic or otherwise) and accounts with respect to Student Loans;
- (3) the collection and enforcement of payments of principal and interest with respect to Student Loans; and
- (4) the submission of claims to the Authority for reimbursement of principal and interest on such Student Loans in accordance with the Higher Education Act.

As provided for by the Amended and Restated Contract, the Authority reimburses the Foundation for a pro rata share of its reasonable operating costs and expenses plus reasonable capital costs incurred in

the administration of loans funded by the Authority under the NCFELP and for any special services performed on behalf of the NCFELP.

### **Foundation as Administrator and Servicer**

In connection with the issuance of the 2011-1 Notes, the Authority and the Foundation will enter into a letter agreement, appointing the Foundation as the Servicer and the Administrator for the Financed Student Loans and detailing certain terms with respect to the servicing of the Financed Student Loans. The letter agreement:

- (1) incorporates applicable provisions of the Amended and Restated Contract by reference;
- (2) places a cap on the amount of Servicing Fees payable by the Authority to the Foundation for the servicing of the Financed Student Loans;
- (3) provides that, subject to a 90-day cure period, the Foundation will purchase any Financed Student Loans that are no longer guaranteed as a result of the Foundation's improper origination or servicing;
- (4) requires that, as long as the Foundation is Servicer of any Financed Student Loans and during the conversion of any Financed Student Loans to Nelnet Servicing, LLC pursuant to the Amended and Restated Backup Servicing Agreement as more particularly described below under "THE BACKUP SERVICER" herein, the Foundation maintain certain licensure to use the Student Loan Servicing System ("SLSS") platform, unless otherwise consented to by the Authority; and
- (5) establishes certain procedures and parameters related to the termination of the letter agreement and the Amended and Restated Contract and the transfer of the servicing function from the Foundation to a successor.

### **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 public at large) appointed by the Governor of the State. The present trustees are as follows:

<u>Name</u>	<u>Title</u>	<u>Occupation</u>
Charles J. Stewart	Chairman	Durham Market Executive, RBC Bank (USA)
Robert F. Lowe	Vice Chairman	Director, NewBridge Bancorp
Stephen G. Ashworth	Treasurer	Senior Vice President, Wachovia Bank, National Association
James O. Frye	Member	Retired Chairman, President and Chief Executive Officer, The Community Bank
Robert E. Hammersley, Jr.	Member	Senior Vice President, Triangle Commercial Markets, RBC Bank (USA)



<u>Name</u>	<u>Title</u>	<u>Occupation</u>
Hilda Pinnix-Ragland	Member	Vice President, Corporate Public Affairs, Progress Energy
M.E. Valentine, Jr.	Member	President, Valentine Properties, Inc.
A. Hope Williams	Member	President, N.C. Independent Colleges and Universities
Quantella Williams	Member	President, The QUAN Company

James I. Avett, III, serves as President and Chief Executive Officer of the Foundation and as Secretary of the Board of Trustees. He joined the staff of the Foundation in May 1990. Mr. Avett currently serves as the Chairman of the Board of Directors for Education Alliance, Incorporated. He previously served on the Board of Directors for NCHELP and ELM Resources, and on the technology committees for NCHELP, the North Carolina Association of Student Financial Aid Administrators and ELM Resources. Prior to his tenure with the Foundation, he was employed for almost two years with the North Carolina Department of Public Instruction's Division of Management Information Systems, where he was Assistant Director, Management Information Systems. From 1970 to 1988, Mr. Avett worked at Gregory Poole Equipment Company, a large regional Caterpillar dealer, where he held various management positions. He graduated from North Carolina State University in 1970 with a Bachelor of Science degree with a major in Engineering Operations (a combination of Industrial Engineering and Business Economics).

Wendy H. McAlister, Senior Vice President, 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 that 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; she assumed responsibility for Financial Services in April 1997. In July 2003, she was named Senior Vice President and is currently responsible for origination services, borrower services, office services, financial services, grant and scholarship services and quality assurance services.

Clifton E. Dillard, Vice President of Technology Services, joined the Foundation in 1991 as Computer Programming Manager and is currently responsible for information technology development and operations, including services provided through the "College Foundation of North Carolina" website, the collaborative website maintained by the Foundation, the Authority, and Pathways of North Carolina, a program administered by The University of North Carolina. Mr. Dillard has served on NCHELP's Electronics Standards Committee and was a key member in the initial development of NCHELP's Commonline communications network. He left the Foundation in 1996 to return to work in the software industry and held the position of Business Analyst with International Business Systems, a major vendor of Enterprise Resource Planning (ERP) software. The experience gained in working with large organizations implementing enterprise wide solutions qualified him to return to the Foundation in June of 2003 as Vice President of Technology Services. Mr. Dillard earned both a Bachelor of Arts in Business and a Master of Industrial Engineering degree from North Carolina State University.

Shera J. Hube, Vice President of Marketing and Savings, is responsible for marketing, college and school relations, and the North Carolina College Savings and Investment Program (the State's 529 plan). She returned to the Foundation in May 2000 as a vice president. During her earlier service at the

Foundation from January 1984 until December 1995, she worked on special projects in publications, staff development and management training. Ms. Hube graduated from Meredith College in 1969 with a Bachelor of Arts in English and secondary education certification. She earned a Master's of Education in Training and Development from North Carolina State University in 1992 and was inducted into the Honor Society of Phi Kappa Phi. Her prior work experience also includes serving as admissions counselor, assistant director of admissions, and associate director of admissions during 16 years at Meredith College in Raleigh, North Carolina and as an executive director for several professional associations during a year with Olson Management Company.

### **Servicing of Student Loans**

The Foundation provides the personnel and technology necessary to perform all servicing of Student Loans, which services include, but are not limited to: (i) verifying that all required documents for each Student Loan have been delivered and that each loan qualifies as a Student 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 Student Loans.

As of December 31, 2010, the Foundation had a staff of 205 full-time and 12 part-time employees with an additional 30 individuals retained through personnel agencies. For collection activities related to delinquent payments, staff work from 8:00 a.m. until 9:00 p.m. (Eastern Time) Monday through Thursday and Fridays from 8:00 a.m. until 5:00 p.m. (Eastern Time), plus at least two Saturdays per month from 8:00 a.m. until noon (Eastern Time).

The Foundation emphasizes the importance of quality in its service to students, colleges, banks, and the Authority as both loan guaranty agency and funds provider. 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. Because of management's emphasis on regulatory compliance and effective accountability, the Foundation's in-house programming staff has 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 electronic funds transfer and electronic student status confirmations through the National Student Clearinghouse and developed programs to provide services for the Authority, including certain reporting to the U.S. Department of Education.

### **Other Programs**

The Foundation also services three non-federal loan programs for the Authority and services other loans made under NCFFELP. In addition, the Foundation services one non-federal loan program for an educational institution. The Authority also contracts with the Foundation for the administration of four grant programs that are estimated to provide approximately \$220 million during the 2010-11 academic year to North Carolina college students. In addition, the Foundation administers several small, private scholarship and education award programs for private foundations and organizations. In December 2001, the Authority launched the North Carolina College Savings and Investment Program ("NCSP"), which offers a variety of investment options for participants. NCSP was developed and is maintained as a "qualified tuition program" within the meaning of Section 529 of the Internal Revenue Code and had assets of approximately \$716.7 million as of December 31, 2010. The Foundation has provided the administrative services for the NCSP and the State's previous college savings program since 1997. In April 2005, the Foundation began administration of the College Funds Installment Payment Plan as agent for various educational institutions in the State. This plan enables a payer to divide expenses due to the school into interest-free monthly payments which the Foundation collects and forwards to the school.

Additionally, the Foundation is taking measures to become a not-for-profit servicer for Title IV student financial aid including Federal Direct student loans. Although the Foundation must satisfy extensive federal contracting requirements to begin servicing federal assets, the U.S. Department of Education has determined that the Foundation has met the basic eligibility requirements as a not-for-profit servicer under HCERA. On November 24, 2010, the Foundation submitted a servicing proposal in response to the U.S. Department of Education's formal solicitation. The Foundation was notified in January 2011 that the proposal was one of the "most highly rated" as submitted under solicitation number NFP-RFP-2010. If feasible financial and other terms are negotiated with the U.S. Department of Education, the Foundation's target date to begin servicing federal assets is currently October 2011.

## **THE BACKUP SERVICER**

### **General**

In connection with the issuance of a prior series of notes secured by a separate trust estate (the "Prior Notes"), the Authority and the Foundation entered into a Backup Third Party Servicing Agreement (the "Original Backup Servicing Agreement") with Nelnet Servicing, LLC (the "Backup Servicer") and the trustee for such trust estate. In connection with the issuance of the 2011-1 Notes, the Authority, the Foundation, as the current Servicer for the Financed Student Loans securing the 2011-1 Notes, and the Trustee will enter into an Amended and Restated Backup Third Party Servicing Agreement (the "Amended and Restated Backup Servicing Agreement") with the Backup Servicer, amending and restating the Original Backup Servicing Agreement for the sole purpose of adding the portfolio of Financed Student Loans securing the 2011-1 Notes and extending the term of the Original Backup Servicing Agreement. Although the Amended and Restated Backup Servicing Agreement will govern the Financed Student Loans securing the 2011-1 Notes and the portfolio securing the Prior Notes, the provisions of the Amended and Restated Backup Servicing Agreement will apply independently to the two portfolios.

The Amended and Restated Backup Servicing Agreement constitutes a Backup Servicing Agreement for purposes of the 2011-1 General Resolution. In general, the Amended and Restated Backup Servicing Agreement sets forth the terms and conditions under which all Financed Student Loans being serviced by the Foundation would be converted to servicing under the Backup Servicer's servicing system (a "Portfolio Conversion").

The Foundation has entered into a nonexclusive, perpetual license agreement with 5280 Solutions, LLC, an affiliate of the Backup Servicer, with respect to such affiliate's Student Loan Servicing System ("SLSS") platform to service Student Loans. In the Amended and Restated Backup Servicing Agreement, the Authority, the Foundation and the Backup Servicer agree to undertake the necessary actions to transfer servicing of the Financed Student Loans serviced using the SLSS system to the SLSS servicing system of the Backup Servicer if a Portfolio Conversion occurs.

The Foundation agrees in the Amended and Restated Backup Servicing Agreement that it will maintain all relevant computer and information systems to be reasonably consistent and compatible with the Backup Servicer's electronic conversion processes or exchange file formats in anticipation of a Portfolio Conversion (including, without limitation, utilizing SLSS at all times to service all of the Financed Student Loans which it is responsible for servicing); provided, however, that the Foundation may cease utilizing the SLSS and may utilize another system if such system is reasonably compatible with the Backup Servicer's electronic conversion processes or exchange file formats. Any additional costs and expenses as a result of the Foundation's using a non-SLSS system will be borne by the Foundation unless the Authority consents in writing to the use of the non-SLSS system by the Foundation.

The Backup Servicer will, upon the request of the Foundation, deliver a written notice to the Foundation (A) indicating all known inconsistencies and incompatibilities of the relevant computer and information systems of the Foundation that could materially and adversely affect the Backup Servicer's or Foundation's ability to perform their respective obligations under the Backup Servicing Agreement, and (B) specifying the exchange file formats, electronic conversion process and procedures anticipated to be used by the Backup Servicer in a Portfolio Conversion.

Within thirty (30) days after (a) the end of each calendar quarter, or (b) receipt of reasonable written request by the Trustee, the Foundation shall deliver to the Trustee, to be held by the Trustee in escrow, the data and document images (including images of promissory notes) from the Foundation's servicing system that are utilized by the Foundation to service the Financed Student Loans ("Escrowed Servicing Data"), current as of the last day of such quarter (after the initial delivery of Escrowed Servicing Data, the Foundation is not required to deliver duplicate images of documents previously provided). The initial delivery shall be for Escrowed Servicing Data as of June 30, 2011. Escrowed Servicing Data will be encrypted on magnetic media and sent to the Trustee. The form and method of delivery of the Escrowed Servicing Data may be modified as may be mutually agreed upon by the Foundation and the Trustee. Upon receipt of the Escrowed Servicing Data for the most recent quarter, the Trustee shall return to the Foundation any and all previous Escrowed Servicing Data. The Trustee may release Escrowed Servicing Data to the Backup Servicer or to any other entity as expressly authorized by the Authority, but only upon the occurrence of a Servicer Transfer Trigger with respect to the Foundation. Delivery of the Escrowed Servicing Data shall cease at such time as there are no 2011-1 Notes outstanding under the 2011-1 General Resolution or the Foundation is no longer a Servicer of Financed Student Loans.

### **Transfer Triggers**

Under the Amended and Restated Backup Servicing Agreement, the Backup Servicer will become the Servicer for the Financed Student Loans upon the occurrence of a "Servicer Transfer Trigger" as defined in the 2011-1 General Resolution. Under the 2011-1 General Resolution, Servicer Transfer Trigger applies to any Servicer for the Financed Student Loans, including the Foundation, as the current Servicer, and means any of the following events:

(a) the Servicer determines that it will no longer service any Financed Student Loans and provides written notice to the Backup Servicer and other parties as required under the Backup Servicing Agreement and prompt written notice to the Trustee of the transfer of servicing pursuant to the Backup Servicing Agreement,

(b) a material weakness regarding the applicable Servicer has been identified in any Servicer Compliance Report related to that Servicer and such material weakness shall continue for a period of 30 days after the Administrator's or the Authority's receipt of such report identifying such material weakness and a Majority of the Noteholders has directed the Trustee and the Authority in writing to proceed with a transfer of servicing,

(c) the Servicer is in a material violation of its duties under the 2011-1 General Resolution (including but not limited to, those duties with respect to Accepted Servicing Procedures) or under the Higher Education Act and such material violation shall continue for a period of 30 days after such Servicer becomes aware of such material violation and a Majority of the Noteholders has directed the Trustee and the Authority in writing to proceed with a transfer of servicing, or

(d) an Event of Insolvency, as defined in the 2011-1 General Resolution, of the Servicer.

"Servicer Compliance Report" means (i) any report generated by the U.S. Department of Education, Office of the Inspector General, specifically relating to a Servicer, and (ii) a third party review of a Servicer conducted under the provisions of the Statement on Auditing Standards No. 70, "Reports on

the Processing of Transactions by Service Organizations” or an A-133 Higher Education Act annual compliance audit, as applicable, in either case, performed annually by a firm of independent public accountants.

Under the Amended and Restated Backup Servicing Agreement, in the event of a Servicer Transfer Trigger, the Foundation is required to send written notice as soon as practicable after becoming aware of the same to the Authority, the Trustee and the Backup Servicer. Upon the Backup Servicer’s receipt of the notice, the Foundation and the Backup Servicer will work together to achieve a Portfolio Conversion. Within one hundred fifty (150) days of the Backup Servicer’s receipt of the notice and in accordance with the schedule provided by the Backup Servicer, the Foundation shall have transmitted the necessary electronic files, copies and/or records (or such other format acceptable to Backup Servicer) to the Backup Servicer to enable Backup Servicer to convert each Financed Student Loan currently Serviced by Foundation to the Backup Servicer’s system for Servicing. The Backup Servicer is under no obligation to convert such Financed Student Loans for Servicing prior to one hundred fifty (150) days after the Backup Servicer’s receipt of the notice; however, the Foundation is required to conduct the transmission of the electronic files and records within a shorter period of time upon request of the Backup Servicer, with such shorter period of time not to be less than ninety (90) days of receipt of notice of a Servicer Transfer Trigger. The Backup Servicer is required to notify the Foundation, the Authority and the Trustee that the Portfolio Conversion has been completed within two (2) Business Days after such completion. The Foundation is responsible for the continued Servicing of the Financed Student Loans until the Portfolio Conversion is completed. The Backup Servicer has no obligations with respect to any Student Loans at any time prior to conversion of such Student Loans to the Backup Servicer’s system for Servicing, other than to remain prepared to convert the Financed Student Loans to the Backup Servicer’s system for Servicing by the Backup Servicer. A Portfolio Conversion does not necessarily include delivery of all records relating to the Financed Student Loans, to the extent such records are not required for completion of the Portfolio Conversion.

Although the Foundation and the Backup Servicer have one hundred and fifty (150) days to make the above-described transfer, the time for the Backup Servicer to begin servicing the Financed Student Loans may be in excess of one hundred and eighty (180) days from the initial occurrence of the events described above under “Transfer Triggers” due to various cure periods and notice requirements in the 2011-1 General Resolution and the Amended and Restated Backup Servicing Agreement. While the Backup Servicer may be willing and able to begin servicing sooner than the committed timeframe, it has no legal obligation to do so.

### **Term of the Amended and Restated Backup Servicing Agreement**

The Amended and Restated Backup Servicing Agreement has an initial term for a period of five (5) years; provided that the term will extend for successive one (1) year periods, unless, prior to receipt of a notice of a Servicer Transfer Trigger, any party thereto notifies the other parties of its intent to terminate the agreement by written notice provided to such other parties at least ninety (90) days prior to the next scheduled termination date. The term of the agreement will automatically extend, without any further act of the parties, until the payment in full of all the Financed Student Loans which have been the subject of a Portfolio Conversion.

The Amended and Restated Backup Servicing Agreement may be terminated at the option of the Authority without charge, upon the occurrence of any of the following (each a “Backup Servicer Termination Event”):

(i) Backup Servicer’s failure to perform or observe any of the material provisions or covenants of the Amended and Restated Backup Servicing Agreement which materially and adversely affects the Foundation’s ability to perform its obligations thereunder;

(ii) If the Backup Servicer (A) discontinues business, or (B) generally does not pay its debts as such debts become due, or (C) makes a general assignment for the benefit of creditors, or (D) admits by answer, default or otherwise the material allegations of petitions filed against it in any bankruptcy, reorganization, insolvency or other proceedings (whether federal or state) relating to relief of debtors, or (E) suffer or permit to continue unstayed and in effect for thirty (30) consecutive days, any judgment, decree or order, entered by a court of competent jurisdiction, which approves a petition seeking its reorganization or appoints a receiver, custodian, trustee, interim trustee or liquidator for itself or all or a substantial part of its assets, or take or omit any action in order thereby to affect any of the foregoing;

(iii) the occurrence of an event or a change in circumstances that would have a material adverse effect on the ability of the Backup Servicer to perform its obligations under the Amended and Restated Backup Servicing Agreement; or

(iv) Backup Servicer fails to remain eligible to service student loans under the Higher Education Act, the related regulations, any applicable state and federal law and the terms and conditions of the Amended and Restated Backup Servicing Agreement.

In the event of the occurrence of an event set forth in (i) or (iii) above, Backup Servicer will have the right to cure any such breach or error to the full satisfaction of the Authority, the Foundation or the Trustee within sixty (60) days of the earlier of (A) receipt by Backup Servicer of written notice of such breach or error or (B) actual discovery of such breach or error by Backup Servicer.

Upon a Backup Servicer Termination Event, the Authority has the right, in its discretion, to direct the Backup Servicer to convert the Financed Student Loans to another backup servicer's system in a commercially reasonable manner. The cost of this conversion shall be borne by the Backup Servicer.

The Amended and Restated Backup Servicing Agreement may be terminated at the option of Backup Servicer upon the occurrence of any of the following:

(i) The Foundation's failure to perform or observe any of the material provisions or covenants of the Amended and Restated Backup Servicing Agreement which materially and adversely affects Backup Servicer's ability to perform its obligations thereunder;

(ii) In the event that Backup Servicer determines that it is no longer able to perform its obligations as a backup third party servicer, upon one hundred eighty (180) days written notice to the Authority, the Foundation and the Trustee;

(iii) In the event that the Foundation discontinues utilizing the SLSS or another reasonably compatible system, as set forth in the Amended and Restated Backup Servicing Agreement; or

(iv) Failure of the Authority to make certain payments under the Amended and Restated Backup Servicing Agreement.

In the event of the occurrence of an event set forth in (i) above, the Foundation shall have the right to cure any such breach or error to Backup Servicer's full satisfaction within sixty (60) days of written notice of such breach or error. In the event such breach is not cured within the cure period, Backup Servicer may terminate the Amended and Restated Backup Servicing Agreement.

Upon a termination event set forth above in (i) to (iv) above, the Authority has the right, in its discretion, to direct the Backup Servicer to convert the Financed Student Loans to another backup servicer's system in a commercially reasonable manner. The cost of this conversion is likely to be borne by the Trust Estate.

The provisions of the Amended and Restated Backup Servicing Agreement relating to Financed Student Loans subject to a Portfolio Conversion shall remain in effect, unless otherwise terminated as described above, until such Financed Student Loans are paid in full.

### **Liability of the Backup Servicer for Servicing Errors**

If Backup Servicer takes or fails to take any action in connection with servicing the Financed Student Loans (whether or not such action or inaction amounts to negligence) which causes any Financed Student Loan to be denied the benefit of any applicable interest subsidy payment, special allowance payment or guarantee, the Backup Servicer is permitted a reasonable time to cause such benefits to be reinstated. If such benefits are not reinstated within twelve (12) months of such denial, the Backup Servicer is obligated to purchase the applicable Financed Student Loans at an amount equal to the amount the guaranty agency would otherwise have paid but for Backup Servicer's error or omission.

### **THE TRUSTEE**

The Bank of New York Mellon Trust Company, National Association ("BNYMTC") will be appointed as Trustee, Registrar and Paying Agent for the 2011-1 Notes. BNYMTC is a national banking association organized under the laws of the United States. It maintains a trust address at 10161 Centurion Parkway, Jacksonville, Florida 32256. BNYMTC is one of the largest corporate trust providers of trust services in transactions secured by student loans. BNYMTC has provided the information in this paragraph. Other than this paragraph, BNYMTC has not participated in the preparation of, and is not responsible for, any other information contained in this Offering Memorandum.

### **ERISA CONSIDERATIONS**

#### **General**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary obligations and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Code imposes substantially similar prohibited transaction restrictions on certain employee benefit plans, including tax-qualified retirement plans described in Section 401(a) of the Code ("Qualified Retirement Plans") and on individual retirement accounts and annuities described in Sections 408 (a) and (b) of the Code ("IRAs," collectively, with Qualified Retirement Plans, "Tax-Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Code, church plans (as defined in Section 3(33) of ERISA) ("Non-ERISA Plans"), are not subject to the requirements set forth in ERISA or the prohibited transaction restrictions under Section 4975 of the Code. Accordingly, the assets of such Non-ERISA Plans may be invested in the 2011-1 Notes without regard to the ERISA or Code considerations described below, provided that such investment is not otherwise subject to the provisions of other applicable federal and state law ("Similar Laws"). Any governmental plan or church plan that is qualified under Section 401(a) and exempt from taxation under Section 501(a) of the Code is, nevertheless, subject to the prohibited transaction rules set forth in Section 503 of the Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that an ERISA Plan's investment of its assets be made in accordance with the documents governing such ERISA Plan, Section 406 of ERISA and Section 4975 of the Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans ("Plan" or collectively "Plans") and entities whose underlying assets include "plan assets" by reason of Plans investing in such entities with persons ("Parties in Interest" or "Disqualified Persons" as

such terms are defined in ERISA and the Code, respectively) who have certain specified relationships to the Plans, unless a statutory, class or administrative exemption is available. Parties in Interest or Disqualified Persons that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA or Section 4975 of the Code unless a statutory, class or administrative exemption is available. Section 502(l) of ERISA requires the Secretary of the U.S. Department of Labor (the “DOL”) to assess a civil penalty against a fiduciary who violates any fiduciary responsibility under ERISA or commits any other violation of part 4 of Title I of ERISA or any other person who knowingly participates in such breach or violation. If the investment constitutes a prohibited transaction under Section 408(e) of the Code, the IRA will lose its tax-exempt status.

The investment in a security by a Plan may, in certain circumstances, be deemed to include an investment in the assets of the entity issuing such security, such as the Authority. Certain transactions involving the purchase, holding or transfer of 2011-1 Notes may be deemed to constitute prohibited transactions if assets of the Authority are deemed to be assets of a Plan. These concepts are discussed in greater detail below.

### **Plan Assets Regulation**

The DOL has promulgated a regulation set forth at 29 C.F.R. § 2510.3-101 (the “Plan Assets Regulation”) concerning whether or not the assets of an ERISA Plan would be deemed to include an interest in the underlying assets of an entity (such as the Authority) for purposes of the general fiduciary responsibility provisions of ERISA and for the prohibited transaction provisions of ERISA and Section 4975 of the Code, when a Plan acquires an “equity interest” (such as a 2011-1 Note) in such entity. Depending upon a number of factors set forth in the Plan Assets Regulation, “plan assets” may be deemed to include either a Plan’s interest in the assets of an entity (such as the Authority) in which it holds an equity interest or merely to include its interest in the instrument evidencing such equity interest (such as a 2011-1 Note). For purposes of this section, the terms “plan assets” (“Plan Assets”) and the “assets of a Plan” have the meaning specified in the Plan Asset Regulation and include an undivided interest in the underlying interest of an entity which holds Plan Assets by reason of a Plan’s investment therein (a “Plan Asset Entity”).

Under the Plan Assets Regulation, the assets of the Authority would be treated as Plan Assets if a Plan acquires an equity interest in the Authority and none of the exceptions contained in the Plan Assets Regulation are applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. If the 2011-1 Notes are treated as having substantial equity features, a Plan or a Plan Asset Entity that purchases 2011-1 Notes could be treated as having acquired a direct interest in the Authority. In that event, the purchase, holding, transfer, or resale of the 2011-1 Notes could result in a transaction that is prohibited under ERISA or the Code.

The Plan Assets Regulation provides an exemption from “Plan Asset” treatment for securities issued by an entity if such securities are debt securities under applicable state law with no “substantial equity features.” While not free from doubt, on the basis of the 2011-1 Notes as described herein, it appears that the 2011-1 Notes should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

In the event that the 2011-1 Notes cannot be treated as indebtedness for purposes of ERISA, under an exception to the Plan Assets Regulation, the assets of a Plan will not include an interest in the assets of an entity, the equity interests of which are acquired by the Plan, if at no time do Plans in the aggregate own 25% or more of the value of any class of equity interests in such entity, as calculated under Section 3(42) of ERISA and the Plan Assets Regulation. Because the availability of this exception depends upon the identity of the holders of the 2011-1 Notes at any time, there can be no assurance that the 2011-1 Notes will qualify for this exception and that the Authority’s assets will not constitute a Plan



Asset subject to ERISA's fiduciary obligations and responsibilities. Therefore, neither a Plan nor a Plan Asset Entity should acquire or hold 2011-1 Notes in reliance upon the availability of any exception under the Plan Assets Regulation.

### **Prohibited Transactions**

The acquisition or holding of 2011-1 Notes by or on behalf of a Plan could give rise to a prohibited transaction if the Authority or any of its respective affiliates is or becomes a Party in Interest or Disqualified Person with respect to such Plan, or in the event that a 2011-1 Note is purchased in the secondary market by a Plan from a Party in Interest or Disqualified Person with respect to such Plan. There can be no assurance that the Authority or any of its respective affiliates will not be or become a Party in Interest or a Disqualified Person with respect to a Plan that acquires 2011-1 Notes. Any such prohibited transaction could be treated as exempt under ERISA and the Code if the 2011-1 Notes were acquired pursuant to and in accordance with one or more statutory exemptions, individual exemptions or "class exemptions" issued by the DOL. Such class exemptions include, for example, Prohibited Transaction Class Exemption ("PTCE") 75-1 (an exemption for certain transactions involving employee benefit plans and broker dealers, reporting dealers and banks), PTCE 84-14 (an exemption for certain transactions determined by an independent qualified professional asset manager), PTCE 90-1 (an exemption for certain transactions involving insurance company pooled separate accounts), PTCE 91-38 (an exemption for certain transactions involving bank collective investment funds), PTCE 95-60 (an exemption for certain transactions involving an insurance company's general account) and PTCE 96-23 (an exemption for certain transactions determined by a qualifying in-house asset manager).

The Underwriters, the Trustee, the Authority, or their affiliates may be the sponsor of, or investment advisor with respect to, one or more Plans. Because these parties may receive certain benefits in connection with the sale or holding 2011-1 Notes, the purchase of 2011-1 Notes using plan assets over which any of these parties or their affiliates has investment authority might be deemed to be a violation of a provision of Title I of ERISA or Section 4975 of the Code. Accordingly, 2011-1 Notes may not be purchased using the assets of any Plan if any of the Underwriters, the Trustee, the Authority, or their affiliates have investment authority for those assets, or is an employer maintaining or contributing to the plan, unless an applicable prohibited transaction exemption is available to cover such purchase.

### **Purchaser's/Transferee's Representations and Warranties**

Each purchaser and each transferee of a 2011-1 Note (including a Plan's fiduciary, as applicable) shall be deemed to represent and warrant that (a) it is not a Plan and is not acquiring the 2011-1 Note directly or indirectly for, or on behalf of, a Plan or with Plan Assets, Plan Asset Entity or any entity whose underlying assets are deemed to be plan assets of such Plan or (b) the acquisition and holding of the 2011-1 Notes by or on behalf of, or with Plan Assets of, any Plan, Plan Asset Entity or any entity whose underlying assets are deemed to be Plan Assets of such Plan is permissible under applicable law, will not result in any non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or similar law, and will not subject the Authority or Underwriters to any obligation not affirmatively undertaken in writing.

### **Consultation with Counsel**

Any Plan fiduciary or other investor of Plan Assets considering whether to acquire or hold 2011-1 Notes on behalf of or with Plan Assets of any Plan or Plan Asset Entity, and any insurance company that proposes to acquire or hold 2011-1 Notes, should consult with its counsel with respect to the potential applicability of the fiduciary responsibility provisions of ERISA and the prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code with respect to the proposed investment and the availability of any prohibited transaction exemption. A fiduciary with respect to a Non-ERISA Plan

which is a “qualified retirement plan” that proposes to acquire or hold 2011-1 Notes should consult with counsel with respect to the applicable federal, state, and local laws.

## **TAX MATTERS**

### **General**

In the opinion of McNair Law Firm, P.A. (“Note Counsel”), interest on the 2011-1 Notes is not excluded from the gross income of the Beneficial Owners for federal income tax purposes. Note Counsel is further of the opinion that interest on the 2011-1 Notes is not subject to present taxation as income by the State. The 2011-1 Notes are free from taxation by the State or any local unit or political subdivision or other instrumentality of the State, excepting estate taxes, gift taxes, income taxes on the gain from the transfer of the 2011-1 Notes, and franchise taxes. Note Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the 2011-1 Notes.

The opinion of Note Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Note Counsel’s judgment as to the proper treatment of the 2011-1 Notes for State and federal income tax purposes. It is not binding on the Internal Revenue Service, the State Department of Revenue or the courts. Furthermore, Note Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the Internal Revenue Service.

Note Counsel’s engagement with respect to the 2011-1 Notes ends with the issuance of the 2011-1 Notes, and, unless separately engaged, Note Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax status of the 2011-1 Notes in the event of an audit examination by the Internal Revenue Service or in any other proceeding.

### **Certain Federal Income Tax Consequences with Respect to the 2011-1 Notes**

The following is a summary of the principal federal income tax consequences resulting from the ownership of 2011-1 Notes by certain persons. This summary does not consider all the possible federal tax consequences of the purchase, ownership or disposition of 2011-1 Notes and is not intended to reflect the individual tax position of any owner. Moreover, except as expressly indicated, it addresses initial purchasers of 2011-1 Notes that (i) purchase at a price equal to the first price to the public at which a substantial amount of the 2011-1 Notes are sold; and (ii) who hold a 2011-1 Note as capital assets within the meaning of Section 1221 of the Code. This summary does not address owners that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, purchasers that hold 2011-1 Notes (or foreign currency) as a hedge against currency risks or as part of a straddle with other investments or as part of a “synthetic security” or other integrated investment (including a “conversion transaction”) comprised of a 2011-1 Note and one or more other investments, or purchasers that have a “functional currency” other than the U.S. dollar. Except to the extent discussed under “Tax Considerations for Non-U.S. Beneficial Owners with Respect to the 2011-1 Notes” below this summary is not applicable to non-United States persons not subject to federal income tax on their worldwide income. This summary is based upon the United States federal tax laws and regulations currently in effect and as currently interpreted and does not take into account possible changes in the tax laws or its interpretations, any of which may be applied retroactively. It does not discuss the tax laws of any state, local or foreign governments.

Persons considering the purchase of 2011-1 Notes should consult their own tax advisors concerning the federal income tax consequences to them in light of their particular situations as well as any consequences to them under the laws of any other taxing jurisdiction.

### **Taxation of Stated Interest with Respect to the 2011-1 Notes**

If the Beneficial Owner is a U.S. holder, such owner generally will be required to include in gross income, as ordinary interest income, the stated interest on the 2011-1 Notes at the time the interest accrues or is received, in accordance with the Beneficial Owner's regular method of accounting for U.S. federal income tax purposes. If a partnership holds 2011-1 Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. Partners of partnerships holding 2011-1 Notes should consult their tax advisors.

It is anticipated that the 2011-1 Notes will be treated as having been issued with original issue discount. If the 2011-1 Notes are deemed to be issued with original issue discount, Section 1272 of the Code requires the current ratable inclusion in income of original issue discount greater than a specified de minimis amount using a constant yield method of accounting. In general, original issue discount is calculated, with regard to any accrual period, by applying the instrument's yield to its adjusted issue price at the beginning of the accrual period, reduced by any qualified stated interest (as defined below) allocable to the period. The aggregate original issue discount allocable to an accrual period is allocated to each day included in such period. The Beneficial Owner of a debt instrument must include in income the sum of the daily portions of original issue discount attributable to the number of days that such Beneficial Owner owned the instrument. The legislative history of the original issue discount provisions indicates that the calculation and accrual of original issue discount should be based on the prepayment assumptions used by the parties in pricing the transaction.

Original issue discount is the stated redemption price at maturity of a debt instrument over its issue price. The stated redemption price at maturity includes all payments with respect to an instrument other than interest unconditionally payable at a fixed rate or a qualified variable rate at fixed intervals of one year or less ("qualified stated interest").

A purchaser (other than a person who purchases a note upon issuance at the issue price) who buys a note at a discount from its principal amount (or its adjusted issue price if issued with original issue discount greater than a specified de minimis amount) will be subject to the market discount rules of the Code. In general, the market discount rules of the Code treat principal payments and gain on disposition of a debt instrument as ordinary income to the extent of accrued market discount. Although the accrued market discount on debt instruments such as the 2011-1 Notes which are subject to prepayment based on the prepayment of other debt instruments is to be determined under regulations yet to be issued, the legislative history of the market discount provisions of the Code indicate that the same prepayment assumption used to calculate original issue discount should be utilized. Each potential Beneficial Owner should consult his tax advisor concerning the application of the market discount rules to the 2011-1 Notes.

In the event that the 2011-1 Notes are considered to be purchased by a Beneficial Owner at a price greater than their remaining stated redemption price at maturity, they will be considered to have been purchased at a premium. The Beneficial Owner may elect to amortize such premium (as an offset to interest income), using a constant yield method, over the remaining term of the 2011-1 Notes. Special rules apply to determine the amount of premium on a "variable rate debt instrument" and certain other debt instruments. Prospective Beneficial Owners should consult their tax advisors regarding the amortization of bond premium.

## **Sale, Exchange, or Retirement of the 2011-1 Notes**

A U.S. Beneficial Owner will generally recognize gain or loss on the sale, exchange, redemption, retirement, or other taxable disposition of a 2011-1 Note in an amount equal to the difference between the amount of cash and the fair market value of any property received (excluding any amount received in respect of accrued stated interest, which will be recognized as ordinary interest income to the extent the holder has not previously included the accrued interest in income) and the Beneficial Owner's adjusted tax basis in the 2011-1 Note. The U.S. Beneficial Owner's tax basis in a 2011-1 Note generally will equal the amount the Beneficial Owner paid for the 2011-1 Note reduced by any payments on the 2011-1 Note that are not payments of stated interest. Gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a 2011-1 Note generally will be capital gain or loss and will be long-term capital gain or loss if the Beneficial Owner held the 2011-1 Note for more than one year. Long-term capital gains of individuals, estates and trusts generally are taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to various limitations. If a 2011-1 Note was acquired subsequent to its initial issuance at a discount, a portion of the gain will be recharacterized as interest and therefore ordinary income. In the event any of the 2011-1 Notes are issued with original discount, in certain circumstances, a portion of the gain can be recharacterized as ordinary income.

If the term of a 2011-1 Note was materially modified, in certain circumstances, a new debt obligation would be deemed created and exchanged for the prior obligation in a taxable transaction. Among the modifications which may be treated as material are those which relate to redemption provisions and, in the case of a nonrecourse obligation, those which involve the substitution of collateral. Each potential Beneficial Owner should consult its own tax advisor concerning the circumstances in which the 2011-1 Notes would be deemed reissued and the likely effects, if any, of such reissuance.

## **Information Reporting and Backup Withholding with Respect to the 2011-1 Notes**

Information reporting will apply to payments of principal and interest made by the Authority on, or the proceeds of the sale or other disposition of, the 2011-1 Notes to certain non-corporate U.S. holders, and backup withholding may apply unless the recipient of such payment provides the appropriate intermediary with a taxpayer identification number, certified under penalties of perjury (as well as certain other information), or otherwise establishes an exemption from backup withholding. Any amount withheld under backup withholding rules is allowable as a credit against the U.S. Beneficial Owner's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the U.S. Beneficial Owner's actual U.S. federal income tax liability and the U.S. Beneficial Owner provides the required information or appropriate claim form to the Internal Revenue Service.

## **Tax Considerations for Non-U.S. Beneficial Owners with Respect to the 2011-1 Notes**

**Taxation of Interest.** Interest on the 2011-1 Notes may also be taxable to non-U.S. Beneficial Owners to the extent described below.

Withholding on Interest and Portfolio Interest Exemption. If a Beneficial Owner is a non-U.S. holder, payments of principal and interest on the 2011-1 Notes will generally be exempt from withholding of U.S. federal income tax under the "portfolio interest" exemption if such Beneficial Owner properly certifies as to such Beneficial Owner's foreign status, as described below, and:

- the Beneficial Owner does not own, actually or constructively, 10% or more of the capital or profits interests of the Authority;
- the Beneficial Owner is not a "controlled foreign corporation" that is related to the Authority; and

- the Beneficial Owner is not a bank that has acquired the 2011-1 Notes in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business.

The portfolio interest exemption and several of the special rules for non-U.S. holders described herein generally apply only if the Beneficial Owner appropriately certifies as to such holder's foreign status. A Beneficial Owner generally can meet this certification requirement by providing a properly executed Form W-8BEN or appropriate substitute form to the Authority or the Paying Agent. If the Beneficial Owner holds the 2011-1 Notes through a financial institution or other agent acting on the Beneficial Owner's behalf, the Beneficial Owner may be required to provide appropriate certifications to the agent. The agent will then generally be required to provide appropriate certifications to the Authority or the Paying Agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to the foreign status of partners, trust owners, or beneficiaries may have to be provided to the Authority or the Paying Agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the Internal Revenue Service, and such intermediaries generally are not required to forward any certification forms received from non-U.S. holders.

If a Beneficial Owner cannot satisfy the requirements described above, payments of interest made to such Beneficial Owner will be subject to the 30% U.S. federal withholding tax, unless such Beneficial Owner provides the Authority with a properly executed Internal Revenue Service Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of a tax treaty, or the payments of principal and interest are effectively connected with such Beneficial Owner's conduct of a trade or business in the United States and the Beneficial Owner meets the certification requirements described below. See "Income or Gain Effectively Connected with a Trade or Business."

Sale or Other Taxable Disposition of 2011-1 Notes. A Beneficial Owner generally will not be subject to U.S. federal income tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a 2011-1 Note unless:

- the gain is effectively connected with the conduct by such Beneficial Owner of a U.S. trade or business;
- the Beneficial Owner is an individual who has been present in the United States for 183 days or more of the taxable year of disposition and certain other requirements are met; or
- the Beneficial Owner was a citizen or resident of the United States and subject to special rules that apply to certain expatriates.

Income or Gain Effectively Connected with a U.S. Trade or Business. The preceding discussion of the tax consequences of the purchase, ownership and disposition of the 2011-1 Notes by a Beneficial Owner generally assumes that such Beneficial Owner is not engaged in a U.S. trade or business. If any interest on the 2011-1 Notes or gain from the sale, exchange, retirement, redemption, or other taxable disposition of the 2011-1 Notes is effectively connected with a U.S. trade or business conducted by the Beneficial Owner, then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates, but will not be subject to withholding tax if certain certification requirements are satisfied. A Beneficial Owner can generally meet the certification requirements by providing a properly executed Form W-8ECI or appropriate substitute form to the Authority or the Paying Agent. If the Beneficial Owner is eligible for the benefits of a tax treaty between the United States and such Beneficial Owner's country of residence, any "effectively connected" income or gain will generally be subject to U.S. federal tax only if it is also attributable to a permanent establishment maintained by such Beneficial Owner in the United States. If the Beneficial Owner is a corporation, that portion of the Beneficial Owner's earnings and profits that are effectively connected with such Beneficial Owner's U.S. trade or

business also may be subject to a “branch profits tax” at a 30% rate, although an applicable tax treaty may provide for a lower rate.

Information Reporting and Backup Withholding. In general, information reporting and backup withholding will apply to payment of interest on the 2011-1 Notes unless the Beneficial Owner appropriately certifies as to such Beneficial Owner’s foreign status or otherwise establishes an exemption.

Payment of the proceeds of a sale of a 2011-1 Note effected by a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless the Beneficial Owner properly certifies under penalties of perjury as to such Beneficial Owner’s foreign status and certain other conditions are met, or the Beneficial Owner otherwise establishes an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of a sale of a 2011-1 Note effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that such Beneficial Owner is a non-U.S. holder and certain other conditions are met, or the Beneficial Owner otherwise establishes an exemption, information reporting will apply to a payment of the proceeds of the sale of a 2011-1 Note effected outside the United States by such a broker if it:

- is a United States person;
- derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- is a controlled foreign corporation for U.S. federal income tax purposes;
- is a foreign partnership that, at any time during the taxable year, has 50% or more of its income or capital interests owned by U.S. persons or is engaged in the conduct of a U.S. trade or business; or
- is a U.S. branch of a foreign bank or insurance company.

Any amount withheld under the backup withholding rules may be credited against the Beneficial Owner’s U.S. federal income tax liability and any excess may be refundable if the proper information is provided to the Internal Revenue Service.

#### **Tax Disclaimer**

**THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATION IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE, NOR DOES IT PURPORT TO CONTAIN OR DISCUSS ALL OF THE TAX MATTERS THAT SHOULD BE CONSIDERED BY A PROSPECTIVE INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL, OR FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE 2011-1 NOTES, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGES IN APPLICABLE LAWS.**

**TO THE EXTENT THAT THIS OFFERING MEMORANDUM PROVIDES FEDERAL INCOME TAX ADVICE, THIS OFFERING MEMORANDUM IS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER. THIS OFFERING MEMORANDUM IS BEING USED TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTION DESCRIBED HEREIN. THE TAXPAYER SHOULD**

**SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

**ACCOUNTING CONSIDERATIONS**

Various factors may influence the accounting treatment applicable to an investor's acquisition and holding of securities such as the 2011-1 Notes. Accounting standards, and the application and interpretation of such standards, are subject to change from time to time. Before making an investment in the 2011-1 Notes, potential investors should consult their accountants for advice as to the appropriate accounting treatment for the 2011-1 Notes.

**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 2011-1 Notes, the 2011-1 Series Resolution or contesting the validity or the authority or proceedings for the adoption, approval, authorization, execution or delivery of the 2011-1 Notes, the 2011-1 General Resolution, the 2011-1 Series Resolution or the pledge or application of any moneys provided for the payment of or security for the 2011-1 Notes 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 2011-1 Notes, the 2011-1 General Resolution, the 2011-1 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 2011-1 Notes are subject to the approval of McNair Law Firm, P.A., Charleston, South Carolina, Note Counsel. Certain legal matters will be passed upon for the Authority by its Director for Legal Affairs and General Counsel, and for the Foundation by its General Counsel. Certain legal matters will be passed upon for the Underwriters by Womble Carlyle Sandridge & Rice, PLLC, Raleigh, North Carolina, counsel to the Underwriters.

**RATINGS**

The 2011-1 Notes will be rated by Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc. ("S&P"), and Fitch Ratings ("Fitch") in their highest rating category. With respect to S&P, such highest rating category is "AAA(sf)" and, with respect to Fitch, such highest rating category is "AAA." The ratings reflect only the view of the Rating Agencies, and the Authority and the Underwriters 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 Offering Memorandum. 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 Fitch or S&P, as applicable, 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 2011-1 Notes.

## PLAN OF DISTRIBUTION

The Underwriters shown on the cover page hereof have jointly agreed, subject to certain conditions set forth in a Note Purchase Agreement with the Authority, to purchase the 2011-1 Notes at the initial public offering price of the 2011-1 Notes and receive fees equal to \$2,225,000. The Underwriters are committed to take and pay for all of the 2011-1 Notes if any are taken. The public offering price may be changed from time to time by the Underwriters.

The Underwriters have advised the Authority that they propose initially to offer the 2011-1 Notes to the public at the prices listed on the cover, and to certain other dealers at this price less a concession not in excess of 0.26%. The Underwriters and those dealers may reallocate to other dealers a concession not in excess of 0.13%. After the initial public offering, these prices and concessions may be changed.

In the ordinary course of their respective businesses, the Underwriters and their respective affiliates have engaged and may in the future engage in investment banking or commercial banking transactions with the Authority and the Foundation.

During and after the offering, the Underwriters may engage in transactions, including open market purchases and sales, to stabilize the prices of the 2011-1 Notes. The Underwriters, for example, may over-allot the 2011-1 Notes for the account of the underwriting syndicate to create a syndicate short position by accepting orders for more 2011-1 Notes than are to be sold.

In general, over-allotment transactions and open market purchases of the 2011-1 Notes for the purpose of stabilization or to reduce a short position could cause the price of a 2011-1 Note to be higher than it might be in the absence of those transactions.

One or more of the Underwriters or their affiliates may retain a material percentage of the 2011-1 Notes for its own account. The retained notes may be resold by such Underwriter or such affiliate at any time in one or more negotiated transactions at varying prices to be determined at the time of sale.

Each Underwriter has represented and agreed that:

(a) it has not offered or sold and will not offer or sell any 2011-1 Notes to persons in the United Kingdom prior to the expiration of the period of six months from the Issue Date except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments, as principal or agent, for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995, as amended (the "POS Regulations");

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity in the United Kingdom, within the meaning of section 21 of the Financial Services and Markets Act 2000 (the "FSMA"), received by it in connection with the issue or sale of any 2011-1 Notes in circumstances in which section 21(1) of the FSMA does not apply to the Authority; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the 2011-1 Notes in, from or otherwise involving the United Kingdom.

No action has been or will be taken by the Authority or the Underwriters that would permit a public offering of the 2011-1 Notes in any country or jurisdiction other than in the United States, where action for that purpose is required. Accordingly, the 2011-1 Notes may not be offered or sold, directly or indirectly, and neither this Offering Memorandum, nor any circular, prospectus, form of application,



advertisement or other material may be distributed in or from or published in any country or jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

## **OTHER MATTERS RELATED TO THE UNDERWRITERS**

In May 2009, RBC Capital Markets, LLC (“RBCCM”), on behalf of itself and certain affiliates, entered into a Consent with the United States Securities and Exchange Commission (“SEC”), and an Assurance of Discontinuance with the New York Attorney General’s office pursuant to which RBCCM agreed to offer to repurchase, at par, auction rate securities held by approximately 2,200 retail brokerage clients in the United States. RBCCM also agreed to continue to work with issuers and other interested parties to provide liquidity solutions for institutional investors not covered by the repurchase offer. Both documents, which were filed in court and are publicly available on the regulators’ websites, finalized earlier term sheet settlements on substantially similar terms. Subsequent to such repurchases, and as of December 31, 2010, RBCCM held \$2,050,000 of the Authority’s auction rate securities in inventory. On June 28, 2010, the SEC announced that RBCCM had satisfied its settlement obligation to use best efforts to provide institutional investors with opportunities to liquidate their auction rate securities holdings. RBCCM also is a defendant in civil claims by institutions who purchased auction rate securities from RBCCM.

In addition, Merrill Lynch, Pierce, Fenner & Smith Incorporated and its affiliates hold approximately \$27,900,000 of the Authority’s auction rate securities. Additionally, BB&T Capital Markets, a division of Scott & Stringfellow, LLC, and its affiliates hold approximately \$72,400,000 of the Authority's auction rate securities.

While the Authority and the Underwriters believe that the refunding of the Authority’s outstanding auction rate securities is of considerable benefit to the Authority, the sale of the 2011-1 Notes and the application of the proceeds thereof to refund all of the Authority’s outstanding auction rate securities benefits certain of the Underwriters and their affiliates by liquidating illiquid inventory. The refunding is also compliant with the regulatory settlements entered into by certain of the Underwriters.

## **FORWARD LOOKING STATEMENTS**

Certain statements presented in this Offering Memorandum constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may vary materially from such expectations. Investors should not place undue reliance on those forward-looking statements. When used in this Offering Memorandum, the words “anticipate,” “estimate,” “intend,” “expect,” “assume,” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results; those differences could be material. Prospective investors for the 2011-1 Notes should not place undue reliance on those forward-looking statements and should review the factors described under the heading “RISK FACTORS,” that could cause actual results to differ from expectations.

## **LEGALITY FOR INVESTMENT**

The Act provides that the 2011-1 Notes 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 2011-1 Notes 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.

## **REPORTS TO NOTEHOLDERS**

The Authority will enter into a Continuing Disclosure Certificate (the “Continuing Disclosure Certificate”) for the benefit of the Noteholders and Beneficial Owners of the 2011-1 Notes and in order to assist any Underwriter participating in the sale of the 2011-1 Notes in complying with Rule 15c2-12 promulgated by the U.S. Securities and Exchange Commission (the “Rule”). The Authority represents that it has been in compliance with all of its prior undertakings under the Rule.

The Continuing Disclosure Certificate will contain various covenants and provisions, certain of which are summarized below. Reference should be made to the Continuing Disclosure Certificate for a full and complete statement of their respective provisions.

Pursuant to the terms of the Continuing Disclosure Certificate, the Authority will be required to provide to each Repository, Quarterly Reports and to make such Quarterly Report available on the Authority’s website to all Beneficial Owners at no cost to the Beneficial Owners. The Quarterly Report shall be dated as of the Distribution Date, contain the information described below and be consistent with the requirements of the Continuing Disclosure Certificate. Each Quarterly Report must be provided to the Repositories and posted on the Authority’s website on or prior to the last day of each month that includes a Distribution Date. Repository means (1) the Municipal Securities Rulemaking Board and its lawful successors (through its Electronic Municipal Market Access (EMMA) System) or any other repository designated by the SEC as a central repository (the “National Repository”) and any public or private repository or entity designated by the State as a state repository for the purpose of the Rule and recognized as such by the SEC (the “State Repository”). As of the date of hereof, there is no State Repository.

The Quarterly Reports provided by the Authority will be required to contain or incorporate by reference loan data for Financed Student Loans and contain, at a minimum: loan type distribution, loan status distribution, school type distribution, delinquency distribution, the CPR prepayment experience, the Pool Balance, the Adjusted Pool Balance, the Outstanding principal balance of the 2011-1 Notes, the interest rates on the 2011-1 Notes, the principal and interest to be paid to Noteholders on such Distribution Date and the Parity Percentage.

The Authority will also cause the Servicer to provide it with its Servicer Compliance Report, and the Authority will, within three business days of receipt thereof, file such Servicer Compliance Report with the Repository and make such Servicer Compliance Report available on the Authority’s website to all Beneficial Owners at no cost to the Beneficial Owners.

Loan-level data relating to the Financed Student Loans, including all material loan characteristics, in a format acceptable to the Authority and the Servicer will be made available to all Beneficial Owners quarterly upon email request directed to the Authority.

The Authority will also be required to provide to the Repositories and to make available on the Authority’s website to all Beneficial Owners at no cost to the Beneficial Owners the annual audited financial statements of the Authority not more than four (4) months after the end of each fiscal year (currently June 30). The annual audited financial statements will be required to be prepared in accordance with generally accepted auditing standards applicable to financial audits contained in Government

Auditing Standards. Such standards will be required to be updated from time to time by the Governmental Accounting Standards Board.

Pursuant to the terms of the Continuing Disclosure Certificate, the Authority will be required to file or cause to be filed notice of any of the following events within ten (10) business days of the occurrence thereof with the Repositories and on the Authority's website:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the 2011-1 Notes or other events affecting the tax status of the 2011-1 Notes;
7. Modifications to rights of security holders;
8. Bond calls and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the securities, if the Authority shall conclude that event is material or if the Value of the property, released, substituted or sold exceeds \$500,000 in any one year or \$2,000,000 in the aggregate;
11. Rating changes;
12. Bankruptcy, insolvency, receivership or similar event of the Authority;
13. Consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional Trustee or the change of name of the Trustee, if material;
15. Amendments to the 2011-1 General Resolution and the 2011-1 Series Resolution; and
16. Increases in the Operating Costs as limited by the 2011-1 Series Resolution.

The Authority has covenanted in the 2011-1 General Resolution to comply with and carry out or cause to be carried out all provisions of the Continuing Disclosure Certificate.

The obligations of the Authority under the Continuing Disclosure Certificate will terminate upon the redemption or payment in full of all of the 2011-1 Notes.

## FINANCIAL STATEMENTS

The financial statements of the Authority for its fiscal years ended June 30, 2010 and 2009 were audited by Koonce, Wooten & Haywood, LLP, as set forth in their report dated September 30, 2010, included as Appendix A hereto. Such financial statements represent the most current audited financial information for the Authority and have been included in this Offering Memorandum in reliance upon the report of Koonce, Wooten & Haywood, LLP in their professional capacity as independent accountants.

The implementation of Governmental Accounting Standards Board Statement No. 14 requires the discrete presentation of condensed financial statements for certain significant component units of the State in the State's annual financial report. The Authority meets the criteria for discrete presentation as a component unit and was most recently presented in the June 30, 2010 State of North Carolina's Comprehensive Annual Financial Report (CAFR) prepared by the Office of the State Controller.

Since the 2011-1 Notes are limited obligations of the Authority payable solely from the sources as described herein, the overall financial status of the Authority may not indicate and may not affect whether such sources will be available to pay the principal of and interest on the 2011-1 Notes.

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**MISCELLANEOUS**

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

The execution of this Offering Memorandum by the Executive Director of the Authority has been duly authorized by the Authority's Board.

This Offering Memorandum is "deemed final" for purposes of Rule 15c2-12 promulgated by the Securities and Exchange Commission.

**STATE EDUCATION ASSISTANCE AUTHORITY**

By: /s/ Steven E. Brooks  
Executive Director

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**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS OF THE AUTHORITY**

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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Financial Statements  
June 30, 2010 and 2009

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

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying 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, 2010 and 2009, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the North Carolina State Education Assistance Authority, as of June 30, 2010 and 2009, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 2 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Koonce, Wooten & Haywood, L.L.P.*

Raleigh, North Carolina  
September 30, 2010

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NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Management's Discussion and Analysis  
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Management of the North Carolina State Education Assistance Authority provides this *Management's Discussion and Analysis* for readers of the Authority's financial statements. This narrative overview and analysis of the financial activities of the Authority is for the fiscal years ended June 30, 2010 and 2009. We encourage readers to consider this information in conjunction with the Authority's financial statements which follow.

#### FINANCIAL HIGHLIGHTS

**Net Assets** -- The assets of the Authority exceeded its liabilities at fiscal years ending June 30, 2010 and 2009 by approximately \$584 and \$600 million, respectively, (presented as "net assets"). Of this amount, approximately \$75.8 and \$59.8 million, respectively, were reported as "unrestricted net assets." Unrestricted net assets represent the amount available to be used to meet the Authority's ongoing operating obligations.

**Change in Net Assets** -- The Authority's total net assets decreased by approximately \$15.9 million (2.7%) in fiscal year 2010, and decreased by approximately \$55.8 million (8.5%) in fiscal year 2009.

#### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the North Carolina State Education Assistance Authority's financial statements. The Authority's financial statements include four components: 1) Statements of Net Assets, 2) Statements of Revenues, Expenses and Change in Net Assets, 3) Statements of Cash Flows, and 4) Notes to the Financial Statements. The Authority meets the criteria detailed in Government Accounting Standards Board Statement No. 14 for component units and is discretely presented in the State of North Carolina Comprehensive Annual Financial Report (CAFR) by the State Auditor's Office and the Office of the State Controller. The financial statements contained herein report information pertaining to the Authority.

The financial statements provide a broad view of the Authority's operations in a manner similar to private-sector business. The statements provide both short-term and long-term information about the Authority's financial position, which assists in assessing the Authority's economic condition at the end of each fiscal year. These statements are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. This basically means they follow methods that are similar to those used by most businesses. They take into account all revenues and expenses connected with the fiscal years even if cash involved has not been received or paid.

The statements of net assets present all of the Authority's assets and liabilities, with the difference between the two reported as "net assets." Over time, increases or decreases in the Authority's net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
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The statements of revenues, expenses, and change in net assets present information showing how the Authority's net assets changed during the most recent fiscal years. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in these statements for some items that will not result in cash flows until future fiscal periods.

The statements of cash flows present a reconciliation of cash and cash equivalents between the beginning of a year and the end of a year. These statements assist in assessing the Authority's ability to generate future net cash flows, ability to meet obligations as they come due, reasons for differences in operating income and cash flows from operations, and the effect of noncash transactions.

#### FINANCIAL ANALYSIS

##### Net Assets

As noted earlier, net assets may serve over time as a useful indicator of an entity's financial position. The Authority's net assets totaled approximately \$584 million as of June 30, 2010, compared to approximately \$600 million as of June 30, 2009.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY'S  
Net Assets

	<u>2010</u>	<u>2009</u>
Current Assets	\$ 1,739,677,817	\$ 1,025,446,988
Noncurrent Assets	3,940,830,396	4,021,756,335
Capital Assets	<u>6,417,199</u>	<u>6,660,461</u>
Total Assets	<u>\$ 5,686,925,412</u>	<u>\$ 5,053,863,784</u>
Current Liabilities	\$ 1,648,311,522	\$ 707,278,519
Noncurrent Liabilities	<u>3,454,775,060</u>	<u>3,746,761,773</u>
Total Liabilities	<u>5,103,086,582</u>	<u>4,454,040,292</u>
Invested in Capital Assets	6,417,199	6,660,461
Restricted	501,634,941	533,403,611
Unrestricted	<u>75,786,690</u>	<u>59,759,420</u>
Total Net Assets	<u>583,838,830</u>	<u>599,823,492</u>
Total Liabilities and Net Assets	<u>\$ 5,686,925,412</u>	<u>\$ 5,053,863,784</u>

The largest portion of the Authority's net assets (85.9% at June 30, 2010 and 88.9% at June 30, 2009) represents resources that are subject to external restrictions on how they may be used. An additional portion (1.10% at June 30, 2010 and 1.11% at June 30, 2009) reflects the Authority's investment in capital assets such as equipment, data processing systems, and intangible assets. The Authority uses these capital assets to provide educational assistance services; consequently, these assets are not available for future spending. The remaining balance of unrestricted net assets may be used to meet the Authority's ongoing operating obligations. Internally imposed designations of resources are not presented as restricted net assets.

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At the end of the current fiscal year, the Authority is able to report positive balances in all three categories of net assets. The same situation held true for the prior fiscal year.

Changes in Net Assets

The Authority's net assets decreased by approximately \$15.9 million or 2.7% during the year ended June 30, 2010 and decreased by approximately \$55.8 million or 8.5% during the year ended June 30, 2009.

NORTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY'S Change in Net Assets		2010	2009
REVENUES:			
Operating Revenues:			
Interest Earnings on Loans	\$	110,666,253	\$ 135,805,132
Miscellaneous		<u>3,793,302</u>	<u>2,987,281</u>
Total Operating Revenues		<u>114,459,555</u>	<u>138,792,413</u>
Nonoperating Revenues:			
State Aid		209,247,467	192,662,912
Grants		65,010,055	39,870,146
Investment Earnings		<u>7,902,627</u>	<u>19,558,205</u>
Total Nonoperating Revenues		<u>282,160,149</u>	<u>252,091,263</u>
Total Revenues		<u>396,619,704</u>	<u>390,883,676</u>
EXPENSES:			
Operating Expenses:			
Services		83,958,622	67,251,953
Interest		72,318,769	131,821,049
Borrower Benefits		7,287,412	11,582,821
Student Loan Service Cancellations		19,363,269	17,216,737
Depreciation and Amortization		3,685,518	1,506,186
Other Expenses		<u>2,463,294</u>	<u>295,438</u>
Total Operating Expenses		<u>189,076,884</u>	<u>229,674,184</u>
Nonoperating Expenses:			
Grants, Aid and Subsidies		<u>223,527,482</u>	<u>217,054,509</u>
Total Nonoperating Expenses		<u>223,527,482</u>	<u>217,054,509</u>
Total Expenses		<u>412,604,366</u>	<u>446,728,693</u>
CHANGE IN NET ASSETS		(15,984,662)	(55,845,017)
NET ASSETS--Beginning of Year		<u>599,823,492</u>	<u>655,668,509</u>
NET ASSETS--End of Year	\$	<u>583,838,830</u>	\$ <u>599,823,492</u>

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Approximately 29% of the Authority's total revenues came from interest earnings on resources invested in student loans under various education programs originated by or assigned to the Authority. An additional 16% resulted from grants that include federal and state aid and state designated funds for student assistance. Approximately 53% of total revenues came from the State of North Carolina Education Lottery and interest earnings on and corpus from escheated monies held by the State. These funds were distributed to the Authority pursuant to State law for the purpose of providing grants to North Carolina residents enrolled at certain institutions of higher education in North Carolina. Lastly, an additional 2% resulted from investment earnings on cash, cash equivalents, and short-term and long-term investments during the fiscal year.

The Authority's expenses cover a range of services. Approximately 21% of the Authority's total expenses were for personnel costs, fees paid to others in exchange for administration of education assistance programs, collection costs related to student loans, and fees for professional and specialized services incurred by the Authority to maintain and enhance its information dissemination program on planning, applying, and paying for higher education. Approximately 18% of expenses were for interest incurred on bonds issued by the Authority in order to fund student loans, 54% were for grants and aid distributed for education assistance, 2% were for borrower benefits to students in North Carolina's Federal Family Education Loan Program, and 5% were for student loan service cancellations related to certain state sponsored loan programs.

The decrease in net assets for the year ended June 30, 2010 is primarily attributable to decreases in subsidies associated with the Federal Family Education Program and decreases in investment earnings.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The Authority's investment in capital assets as of June 30, 2010 amounts to approximately \$18.7 million, net of accumulated depreciation of approximately \$12.3 million, leaving a net book value of approximately \$6.4 million. The Authority's investment in capital assets as of June 30, 2009 amounted to approximately \$18.6 million, net of accumulated depreciation of approximately \$12 million, leaving a net book value of approximately \$6.6 million. This investment in capital assets includes office furniture and equipment, data processing systems, other equipment, and intangible assets.

The total gross increase in the Authority's investment in capital assets for the fiscal year 2010 was approximately \$.13 million. The total gross decrease in the Authority's investment in capital assets for the fiscal year 2009 was approximately \$.76 million. The increase during fiscal year 2010 primarily related to long-term facility improvements. The decrease during fiscal year 2009 primarily related to dispositions of obsolete data processing equipment and workstations.

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Bonds and Notes Payable

All long-term indebtedness and notes payable represent special obligations of the Authority and do not constitute a debt, liability, or obligation of the State of North Carolina. The 2008-1 Series Bonds are secured by both federally insured student loans and certain non-federal loans of the Authority which are not insured by the federal government. All other indebtedness is secured by federally insured student loans of the Authority.

The Authority's total debt increased by approximately \$503 million (12.6%) and \$300 million (8.1%) during the fiscal years 2010 and 2009, respectively.

Additional information on the Authority's debt obligations can be found in Note 7 and Note 8 of the notes to the financial statements of this report.

ECONOMIC FACTORS

The primary economic factors affecting the Authority derive from changes in federal law and national economic trends. Under the terms of the Federal Loan Participation Purchase Program ("Federal LPP") authorized by the "Ensuring Continued Access to Student Loans Act of 2008," Pub. Law 110-227, as amended by Pub. Law 110-315 and Pub. Law 110-350 ("ECASLA"), all 2009-2010 participations must be terminated by September 30, 2010. As of June 30, 2010, the Authority's obligation under the Federal LPP was approximately \$824 million. To effect a termination of its participation in the Federal LPP, the Authority authorized the "put," or sale, of the participated student loans to the U.S. Department of Education, as permitted under ECASLA. Based on the schedule set by the U.S. Department of Education, the Authority consummated the sale of its interests in the participated student loans on September 13, 2010.

In addition, the Health Care and Education Reconciliation Act of 2010 ("HERA"), signed into law on March 30, 2010, mandates that all new federal student loans be originated through the Federal Direct Loan Program effective July 1, 2010. While HERA obviates the need for the Authority to raise capital to finance new loans under the Federal Family Education Loan Program, this change in federal law does not immediately alter the revenues and obligations associated with the Authority's existing portfolio of financed student loans and loans under guaranty.

However, national economic trends, as manifest in the limited availability of liquidity in the capital markets, continue to present a challenge to the Authority as the agency seeks to realign its outstanding indebtedness with the yields on the underlying student and parent loans pledged to repay that indebtedness. This interest rate disparity will likely continue to have a negative impact on the Authority's finances for the year ending June 30, 2011. Given that the Authority has accessed the conduit facility authorized by the U.S. Department of Education to the maximum level allowable under current law, the extent of the impact of the interest rate disparity will depend upon access to the



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capital markets and the Authority's ability to restructure its most expensive debt and remaining auction rate bonds. The Authority has authorized the issuance of approximately \$915 million in student loan backed floating rate notes for the primary purpose of refunding and defeasing certain prior obligations of the Authority, including the Authority's outstanding auction rate bonds and certain privately placed bonds. The Authority expects to close one or more transactions to accomplish this purpose sometime in the coming year.

STATEMENTS OF NET ASSETS

NORTH CAROLINA  
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Statements of Net Assets  
June 30, 2010 and 2009

ASSETS

	2010	2009
<b>CURRENT ASSETS:</b>		
Cash and Cash Equivalents	\$ 47,630,745	\$ 52,580,605
Restricted Cash and Cash Equivalents	189,560,506	131,342,812
Restricted Investments	161,723,692	399,290,147
Receivables:		
Accounts Receivable	34,397	253,607
Intergovernmental Receivables	3,023,292	2,922,478
Interest Receivable	90,375,439	71,944,029
Due From Component Unit	1,740,000	1,740,000
Due from Primary Government	26,900,292	6,365,997
Prepaid Items	7,732	27,834
Notes Receivable	1,218,681,722	358,979,479
Total Current Assets	1,739,677,817	1,025,446,988
<b>NONCURRENT ASSETS:</b>		
Restricted Cash and Cash Equivalents	123,495,910	99,019,854
Restricted Investments	507,635,087	385,677,145
Notes Receivable	3,291,600,494	3,516,278,913
Unamortized Bond Issuance Expenses	18,098,905	20,780,423
Total Noncurrent Assets	3,940,830,396	4,021,756,335
<b>CAPITAL ASSETS:</b>		
Office Furniture and Equipment	175,641	175,641
Data Processing Systems	13,269,372	13,227,307
Other Equipment	302,643	214,769
Intangible Assets	5,000,000	5,000,000
Accumulated Depreciation	(12,330,457)	(11,957,256)
Net Capital Assets	6,417,199	6,660,461
 Total Assets	 \$ 5,686,925,412	 \$ 5,053,863,784

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

## LIABILITIES AND NET ASSETS

	<u>2010</u>	<u>2009</u>
<b>CURRENT LIABILITIES:</b>		
Accounts Payable and Accrued Liabilities:		
Accounts Payable	\$ 17,869,635	\$ 12,019,739
Accrued Payroll	147,273	151,865
Interest Payable	5,956,093	15,053,416
Short-Term Debt	823,685,178	
Notes Payable	120,500,000	
Due to IRC Section 529 Plan Participants	42,287,187	31,626,550
Bonds Payable	637,200,000	647,400,000
Arbitrage Rebate and Excess Earnings Liability	654,974	1,016,032
Accrued Vacation Leave	11,182	10,917
Total Current Liabilities	<u>1,648,311,522</u>	<u>707,278,519</u>
<b>NONCURRENT LIABILITIES:</b>		
Due to IRC Section 529 Plan Participants	537,923,872	397,792,647
Bonds Payable	1,476,450,000	3,347,062,000
Notes Payable	1,440,024,745	
Arbitrage Rebate and Excess Earnings Liability	34,197	1,559,743
Accrued Vacation Leave	342,246	347,383
Total Noncurrent Liabilities	<u>3,454,775,060</u>	<u>3,746,761,773</u>
Total Liabilities	<u>5,103,086,582</u>	<u>4,454,040,292</u>
<b>NET ASSETS:</b>		
Invested in Capital Assets, net of Related Debt	6,417,199	6,660,461
Restricted for Educational Assistance Programs	501,634,941	533,403,611
Unrestricted	75,786,690	59,759,420
Total Net Assets	<u>583,838,830</u>	<u>599,823,492</u>
Total Liabilities and Net Assets	<u>\$ 5,686,925,412</u>	<u>\$ 5,053,863,784</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Revenues, Expenses and Change in Net Assets  
For The Years Ended June 30, 2010 and 2009

	2010	2009
OPERATING REVENUES:		
Interest Earnings on Loans	\$ 110,666,253	\$ 135,805,132
Miscellaneous	3,793,302	2,987,281
Total Operating Revenues	114,459,555	138,792,413
OPERATING EXPENSES:		
Personal Services	3,510,836	3,517,051
Supplies and Materials	49,701	59,626
Services	80,447,786	63,734,902
Interest	72,318,769	131,821,049
Depreciation and Amortization	3,685,518	1,506,186
Borrower Benefits	7,287,412	11,582,821
Student Loan Service Cancellations	19,363,269	17,216,737
Other Expenses	2,413,593	235,812
Total Operating Expenses	189,076,884	229,674,184
Operating Loss	(74,617,329)	(90,881,771)
NONOPERATING REVENUES (EXPENSES):		
State Aid	209,247,467	192,662,912
Noncapital Grants	56,756,114	32,466,124
Federal Grants	8,253,941	7,404,022
Investment Earnings	7,902,627	19,558,205
Grants, Aid and Subsidies	(223,527,482)	(217,054,509)
Total Nonoperating Revenues (Expenses)	58,632,667	35,036,754
Change in Net Assets	(15,984,662)	(55,845,017)
NET ASSETS--Beginning of Year	599,823,492	655,668,509
NET ASSETS--End of Year	\$ 583,838,830	\$ 599,823,492

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, 2010 and 2009

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from Customers	\$ 115,711,528	\$ 38,716,773
Collection of Loans from Students	555,851,380	511,480,731
Payments to Employees and Fringe Benefits	(3,520,300)	(3,446,674)
Payments to Vendors and Suppliers	(87,255,067)	(90,890,796)
Loans Issued to Students	(1,108,001,845)	(1,014,169,405)
Payments of Operating Interest Expense	(72,318,769)	(131,821,049)
Net Cash Used by Operating Activities	(599,533,073)	(690,130,420)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from Sale of Bonds and Notes	2,445,329,869	1,075,655,000
Repayment of Bond Principal	(1,941,931,947)	(776,130,000)
Bond Issuance Costs	(630,800)	(5,079,532)
State Aid	209,247,467	192,662,912
Noncapital Grants	56,756,114	32,466,124
Federal Grants	8,253,941	7,404,022
Grants, Aid and Subsidies	(223,527,482)	(217,054,509)
Net Cash Provided by Noncapital Financing Activities	553,497,162	309,924,017
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Acquisition of Capital Assets	(129,939)	(14,865)
Net Cash Used by Capital and Related Financing Activities	(129,939)	(14,865)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds from the Sale and Maturities of Non-State Treasurer Investments	6,869,098,287	3,546,149,862
Redemptions from the State Treasurer Long-Term Investment Pool	25,000,000	
Investment Earnings	4,891,916	16,617,799
Purchase of Non-State Treasurer Investments	(6,775,080,463)	(3,230,348,192)
Net Cash Provided by Investing Activities	123,909,740	332,419,469
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	77,743,890	(47,801,799)
<b>CASH AND CASH EQUIVALENTS--Beginning of Year</b>	282,943,271	330,745,070
<b>CASH AND CASH EQUIVALENTS--End of Year</b>	\$ 360,687,161	\$ 282,943,271

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Statements of Cash Flows  
For The Years Ended June 30, 2010 and 2009

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (74,617,329)	\$ (90,881,771)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities:		
Depreciation and Amortization	3,685,518	1,506,186
Student Loan Principal Repayments	425,164,948	358,420,436
Student Loans Issued	(1,022,612,455)	(922,321,793)
Student Loan Cancellations and Write-offs	11,816,044	10,152,162
Allowances and Uncollectible Accounts	7,826,000	7,103,000
Capitalized Interest and Other	(57,596,487)	(62,145,470)
(Increase) Decrease in Assets:		
Accounts Receivable	225,135	9,921,377
Intergovernmental Receivables	(100,814)	4,722,770
Investment Earnings Receivable	(18,457,809)	(10,337,511)
Due from Primary Government	(20,534,295)	21,117,815
Prepaid Expense	20,102	105,355
Increase (Decrease) in Liabilities:		
Accounts Payable	(5,134,030)	(27,868,394)
Accrued Payroll	(4,592)	15,495
Due to IRC Section 529 Plan Participants	150,791,862	10,305,041
Accrued Vacation Leave	(4,871)	54,882
	\$ (599,533,073)	\$ (690,130,420)
Net Cash Used by Operating Activities		
SUPPLEMENTAL DISCLOSURE OF CASH FLOWS INFORMATION:		
Cash Paid During the Year for Interest	\$ 81,416,092	\$ 167,591,431
NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:		
Noncash Distributions from State Treasurer		
Long-Term Investment Pool	\$ 576,739	\$ 2,804,674
Write-up of Investments to Fair Market Value	\$ 2,832,571	\$ 449,933

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

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

1. Summary of Significant Accounting Policies

A. Organization and Reporting Entity:

Governmental Accounting Standards Board Statement No. 14 requires 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, 2010 and 2009, State of North Carolina Comprehensive Annual Financial Reports (CAFR) by the State Auditor's Office and the Office of the State Controller.

The State Education Assistance Authority is a legally separate authority created to provide a system of financial assistance, consisting of grants, loans, work-study or other employment, and other aids, to qualified students to obtain an education beyond the high school level by attending public or private educational institutions. The Authority is governed by a seven-member board of directors, all of whom are appointed by the Governor. The state provides program subsidies to the Authority; therefore, a financial benefit/burden relationship exists between the state and the Authority.

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

1. Student Aid Funds
2. North Carolina Student Loan Fund and Federal Loan Participation Purchase Program
3. Guaranteed Student Loan Revenue Bond Fund and Conduit Funding Program
4. North Carolina Student Incentive Grant Program
5. UNC Need-Based Grant Program
6. North Carolina Student Loan Program for Health, Science and Mathematics
7. North Carolina Nurse Scholarship Loan Program
8. North Carolina Masters Nurse Scholarship Loan Program
9. North Carolina Nurse Education Scholarship Loan Program
10. Principal Fellows Scholarship Loan Program
11. Social Workers Scholarship Loan Program
12. Millennium Teacher Scholarship Loan Program
13. Future Teachers of North Carolina Scholarship Loan Program
14. Physical Education/Coaching Scholarship Loan Program
15. Prospective Teacher/Teacher Assistant Scholarship Loan Program
16. Board of Governor's Dental Scholarship Loan Program
17. Board of Governor's Medical Scholarship Loan Program
18. Graduate Nurse Scholarship Loan Program
19. Paul Douglas Teacher Scholarship Loan Program
20. Golden LEAF Scholars Program
21. North Carolina National College Savings Program
22. Alternative Loan and Collection Programs
23. Education Lottery Scholarship Fund
24. Education Access Rewards NC Scholars Fund (EARN)
25. John B. McLendon Scholarship Fund
26. Child Welfare Postsecondary Support Program
27. Optometry Scholarship Loan Program
28. State Budget Code 66011
29. Operating Funds

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, as amended.



NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation:

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

In accordance with GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Authority does not apply Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989 unless the GASB amends its pronouncements to specifically adopt FASB pronouncements issued after that date.

Pursuant to the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, the full scope of the Authority's activities is considered to be a single business type activity and accordingly, is reported within a single column in the financial statements.

C. Basis of Accounting:

The financial statements of the Authority have been prepared on the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred, regardless of the timing of the cash flows.

Nonexchange transactions, in which the Authority receives (or gives) value without directly giving (or receiving) equal value in exchange includes state appropriations and certain grants. Revenues are recognized as soon as all eligibility requirements imposed by the provider have been met.

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.

The Statements of Net Assets include a self-balancing set of assets, liabilities, and net assets that report the financial position of the Authority at the end of the fiscal years ended June 30, 2010 and 2009. The Statements of Revenues, Expenses and Change in Net Assets include the one accounting fund group and identify activities which changed net asset balances during the fiscal years.

D. Cash and Cash Equivalents:

This classification includes deposits held by the State Treasurer in the short-term investment fund, as well as cash on deposit with trustees/custodians. The short-term investment fund maintained by the State Treasurer has the general characteristics of a demand deposit account in that participants may deposit and withdraw cash at any time without prior notice or penalty. Additional information regarding cash and cash equivalents is provided in Note 2.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

1. Summary of Significant Accounting Policies (Continued)

E. Investments:

This classification includes deposits held by the State Treasurer in certain long-term investment funds, as well as investments with trustees/custodians. Investments generally are reported at fair value, as determined by quoted market prices. The net increase (decrease) in the fair value of investments is recognized as a component of investment earnings. Additional information regarding investments is provided in Note 2.

F. 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.

G. Capital Assets:

Capital assets are stated at cost at date of acquisition or fair value at date of donation in the case of gifts. The Authority capitalizes assets that have a value or cost in excess of \$5,000 at the date of acquisition and an estimated useful life of more than one year. Depreciation is computed using the straight-line method over the estimated useful lives of the assets as follows: Office furniture and equipment, data processing systems, and other equipment -- 5 to 8 years.

H. Restricted Assets:

Restricted assets represent assets whose use is restricted by external parties, by law through constitutional provisions, or by enabling legislation of other governments.

I. Noncurrent Long-Term Liabilities:

Noncurrent long-term liabilities include arbitrage rebate and excess earnings liability, amounts due to participants in the IRC Section 529 savings plan, principal amounts of bonds and notes payable, and compensated absences that will not be paid within the next fiscal year.

Debt issuance costs are deferred and amortized over the life of the debt using the straight-line method.

J. Compensated Absences:

The Authority's policy is to record 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<sup>st</sup> or for which an employee can be paid upon termination of employment. When classifying compensated absences into current and noncurrent, leave is considered taken using a last in, first out (LIFO) method. 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<sup>th</sup> equals the leave carried forward at the previous December 31<sup>st</sup>, plus the leave earned, less the leave taken between January 1<sup>st</sup> and June 30<sup>th</sup>.

In addition to the vacation leave described above, compensated absences include the accumulated unused portion of the special annual leave bonuses awarded by the North Carolina General Assembly. The bonus leave balance on December 31<sup>st</sup> is retained by employees and transferred into the next calendar year. It is not subject to the limitation on annual leave carried forward described above and is not subject to conversion to sick leave.

There is no liability for unpaid accumulated sick leave because the Authority has no obligation to pay sick leave upon termination or retirement. However, additional service credit for retirement pension benefits is given for accumulated sick leave upon retirement.

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

1. Summary of Significant Accounting Policies (Continued)

K. Net Assets:

The Authority's net assets are classified as follows:

**Invested in Capital Assets, Net of Related Debt:** This represents the Authority's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**Restricted Net Assets -- Nonexpendable:** Nonexpendable restricted net assets include endowments and similar type assets whose use is limited by donors or other outside sources and as a condition of the gift, the principal is to be maintained in perpetuity. The Authority currently has no nonexpendable restricted net assets.

**Restricted Net Assets -- Expendable:** Expendable restricted net assets include resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

**Unrestricted Net Assets:** Unrestricted net assets include resources derived from noncapital state grants and related state-supported loan programs.

Restricted and unrestricted resources are tracked using a fund accounting system and are spent in accordance with established fund authorities. Fund authorities provide rules for the fund activity and are separately established for restricted and unrestricted activities. Resources are applied on a transactional basis with unrestricted resources applied to expenses of a general unrestricted nature and to expenses of a restricted nature when restricted resources are unavailable. Restricted resources, when available, are applied to appropriate restricted expenses.

L. Revenue and Expense Recognition:

The Authority classifies its revenues and expenses as operating or nonoperating in the accompanying Statements of Revenues, Expenses, and Change in Net Assets. Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. Operating revenues include activities that have characteristics of exchange transactions, such as (1) interest earned on loans and (2) borrower recoveries and fees. Operating expenses are all expense transactions incurred other than those related to capital and noncapital financing or investing activities as defined by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Nonoperating revenues include activities that have the characteristics of nonexchange transactions. Revenues from nonexchange transactions and State appropriations that represent subsidies to the Authority, as well as investment income, are considered nonoperating since these are either investing, capital or noncapital financing activities.

M. 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, 2010 and 2009

1. Summary of Significant Accounting Policies (Continued)

N. 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.

2. Deposits and Investments

A. Deposits:

Unless specifically exempt, the Authority is required by North Carolina General Statute 147-77 to deposit moneys received with the State Treasurer or with a depository institution in the name of the State Treasurer. In addition, General Statute 116-36.1 requires the Authority to deposit its institutional trust funds with the State Treasurer.

At June 30, 2010 and 2009, the amounts shown on the Statements of Net Assets as cash and cash equivalents include \$236,905,418 and \$277,832,847, respectively, which represent the Authority's equity position in the State Treasurer's Short-Term Investment Fund. The Short-Term Investment Fund (a portfolio within the State Treasurer's Investment Pool, an external investment pool that is not registered with the Securities and Exchange Commission and does not have a credit rating) had a weighted average maturity of 1.6 years and 1.8 years as of June 30, 2010 and 2009, respectively. Assets and shares of the Short-Term Investment Fund are valued at amortized cost, which approximates fair value. Deposit and investment risks associated with the State Treasurer's Investment Pool (which includes the State Treasurer's Short-Term Investment Fund) are included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

Cash on hand at June 30, 2010 and 2009 was \$360,687,161 and \$282,943,271, respectively. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2010 was \$123,781,743. The carrying amount and bank balance of the Authority's deposits not with the State Treasurer at June 30, 2009 was \$5,110,424. Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2010 and 2009, the Authority's bank balance was exposed to custodial credit risk as follows:

	<u>2010</u>	<u>2009</u>
Uninsured and Uncollateralized	\$	\$
Uninsured and Collateral Held by Pledging Financial Institution	123,781,743	5,110,424
Uninsured and Collateral Held by Pledging Financial Institution's Agent but not in the Authority's Name		
Total	<u>\$ 123,781,743</u>	<u>\$ 5,110,424</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

2. Deposits and Investments (Continued)

B. Investments:

North Carolina General Statutes 147-69.1(c) and 147-69.2, which are applicable to the Authority, authorize the State Treasurer to invest in the following: obligations of or fully guaranteed by the United States; obligations of certain federal agencies; repurchase agreements; obligations of the State of North Carolina; time deposits of specified institutions; prime quality commercial paper, and asset-backed securities with specified ratings. Also, General Statute 147-69.1(c) authorizes the following: specified bills of exchange or time drafts and corporate bonds and notes with specified ratings. General Statute 147-69.2 authorizes the following: general obligations of other states; general obligations of North Carolina local governments; and obligations of certain entities with specified ratings.

Investments totaled \$669,358,779 at June 30, 2010 and \$784,967,292 at June 30, 2009. The Authority's portion of the State Treasurer's Long-Term Investment Fund at June 30, 2010 and 2009 was \$23,937,087 and \$45,527,776, respectively. The Authority's investments not with the State Treasurer as of June 30, 2010 and 2009 totaled \$645,421,692 and \$739,439,516, respectively.

In accordance with bond resolutions, bond proceeds and debt service funds are invested in obligations that will by their terms mature on or before the date funds are expected to be required for expenditure or withdrawal.

**Non-Pooled Investments:**

*Interest Rate Risk:* Interest rate risk is the risk the Authority may face should interest rate variances affect the fair value of investments. The Authority does not have a formal investment policy that addresses interest rate risk.

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2010, for the Authority's non-pooled investments:

	Total	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
Annuity Contracts	\$ 3,272,539	\$ 3,272,539	\$	\$	\$
Money Market Mutual Funds	<u>123,141,930</u>	<u>123,141,930</u>			
Total Investments Subject to Interest Rate Risk	<u>126,414,469</u>	<u>\$ 126,414,469</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	53,276,238				
Other Mutual Funds	431,590,706				
Domestic Stocks	<u>34,140,279</u>				
Total Investments Not Subject to Interest Rate Risk	<u>519,007,223</u>				
Total Non-Pooled Investments	<u>\$ 645,421,692</u>				

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

2. Deposits and Investments (Continued)

The following table presents the fair value of investments by type and investments subject to interest rate risk at June 30, 2009, for the Authority's non-pooled investments:

	Total	Investment Maturities (in Years)			
		Less Than 1	1 to 5	6 to 10	More Than 10
Investments Subject to Interest Rate Risk:					
Annuity Contracts	\$ 4,874,087	\$ 4,874,087	\$	\$	\$
Money Market Mutual Funds	<u>270,033,651</u>	<u>270,033,651</u>			
Total Investments Subject to Interest Rate Risk	<u>274,907,738</u>	<u>\$ 274,907,738</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Investments Not Subject to Interest Rate Risk:					
Investment Agreements	129,256,496				
Other Mutual Funds	306,281,361				
Domestic Stocks	<u>28,993,921</u>				
Total Investments Not Subject to Interest Rate Risk	<u>464,531,778</u>				
Total Non-Pooled Investments	<u>\$ 739,439,516</u>				

*Credit Risk:* Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Authority has formally adopted investment policies for credit risk stating that certain investment obligations shall bear one of the two highest ratings by nationally recognized rating services.

As of June 30, 2010, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and Below	Unrated
Annuity Contracts	\$ 3,272,539	\$	\$	\$	\$	\$	\$ 3,272,539
Money Market Mutual Funds	<u>123,141,930</u>						<u>123,141,930</u>
Total	<u>\$ 126,414,469</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 126,414,469</u>

As of June 30, 2009, the Authority's non-pooled investments had the following credit quality distribution for securities with credit exposure:

	Fair Value	AAA Aaa	AA Aa	A	BBB Baa	BB/Ba and Below	Unrated
Annuity Contracts	\$ 4,874,087	\$	\$	\$	\$	\$	\$ 4,874,087
Money Market Mutual Funds	<u>270,033,651</u>						<u>270,033,651</u>
Total	<u>\$ 274,907,738</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 274,907,738</u>

NORTH CAROLINA  
STATE EDUCATION ASSISTANCE AUTHORITY  
Notes To Financial Statements  
June 30, 2010 and 2009

2. Deposits and Investments (Continued)

*Custodial Credit Risk:* Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a formal policy that addresses custodial credit risk.

At June 30, 2010, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

	<u>Total</u>	<u>Held by Counterparty</u>	<u>Held by Counterparty's Trust Dept or Agent Not in Authority's Name</u>	<u>All Other Investments</u>
Investments Categorized:				
Domestic Stocks	\$ 34,140,279	\$ _____	\$ 34,140,279	\$ _____
Total Categorized	<u>34,140,279</u>	<u>_____</u>	<u>34,140,279</u>	<u>_____</u>
Investments Not Categorized:				
Investment Agreements	53,276,238			
Money Market Mutual Funds	123,141,930			
Other Mutual Funds	431,590,706			
Annuity Contracts	<u>3,272,539</u>			
Total Not Categorized	<u>611,281,413</u>			
Total Non-Pooled Investments	\$ <u>645,421,692</u>			

At June 30, 2009, the Authority's non-pooled investments were exposed to custodial credit risk as follows:

	<u>Total</u>	<u>Held by Counterparty</u>	<u>Held by Counterparty's Trust Dept or Agent Not in Authority's Name</u>	<u>All Other Investments</u>
Investments Categorized:				
Domestic Stocks	\$ 28,993,921	\$ _____	\$ 28,993,921	\$ _____
Total Categorized	<u>28,993,921</u>	<u>_____</u>	<u>28,993,921</u>	<u>_____</u>
Investments Not Categorized:				
Investment Agreements	129,256,496			
Money Market Mutual Funds	270,033,651			
Other Mutual Funds	306,281,361			
Annuity Contracts	<u>4,874,087</u>			
Total Not Categorized	<u>710,445,595</u>			
Total Non-Pooled Investments	\$ <u>739,439,516</u>			

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2. Deposits and Investments (Continued)

*Concentration of Credit Risk:* Concentration of credit risk is the risk of loss attributable to the magnitude of an investment in a single issuer. The Authority does not have a formal policy that addresses concentration of credit risk. The Authority places no limit on the amount that may be invested in any one issuer. As of June 30, 2010, the Authority had no non-pooled investments in any one issuer that equaled more than 5% of the Authority's total non-pooled investments. As of June 30, 2009, more than 5% of the Authority's non-pooled investments were invested in Pallas Capital Funding Corporation (13%).

*Foreign Currency Risk:* Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Authority has formally adopted investment policies for foreign currency risk stating that foreign investments must be denominated in U.S. dollars or the securities must be traded solely on an exchange based in the United States. The Authority's non-pooled investments exposed to foreign currency risk are comprised entirely of amounts invested in International Mutual Funds. As of June 30, 2010 and 2009, there were no amounts invested in International Mutual Funds.

**Total Non-Pooled Investments:**

The following table presents the fair value of the Authority's total investments not with the State Treasurer at June 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Debt Securities:		
Annuity Contracts	\$ 3,272,539	\$ 4,874,087
Money Market Mutual Funds	<u>123,141,930</u>	<u>270,033,651</u>
Total Debt Securities	<u>126,414,469</u>	<u>274,907,738</u>
Other Securities:		
Investment Agreements	53,276,238	129,256,496
Other Mutual Funds	431,590,706	306,281,361
Domestic Stocks	<u>34,140,279</u>	<u>28,993,921</u>
Total Other Securities	<u>519,007,223</u>	<u>464,531,778</u>
Total Non-Pooled Investments	\$ <u>645,421,692</u>	\$ <u>739,439,516</u>

3. Receivables

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2010 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 2,681,250	\$ 515,625	\$ 2,165,625
Gross Student Loan Receivables	4,577,989,966	1,279,513,665	3,298,476,301
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>70,389,000</u>	<u>61,347,568</u>	<u>9,041,432</u>
Net Receivables	\$ <u>4,510,282,216</u>	\$ <u>1,218,681,722</u>	\$ <u>3,291,600,494</u>



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3. Receivables (Continued)

The gross receivables and related allowances for service cancellations and doubtful accounts on student loans at June 30, 2009 were:

	<u>Total</u>	<u>Current</u>	<u>Noncurrent</u>
Note Receivable--XAP Corporation	\$ 3,059,375	\$ 378,125	\$ 2,681,250
Gross Student Loan Receivables	3,934,762,017	368,905,031	3,565,856,986
Less: Allowance for Service Cancellations and Doubtful Accounts	<u>62,563,000</u>	<u>10,303,677</u>	<u>52,259,323</u>
Net Receivables	\$ <u>3,875,258,392</u>	\$ <u>358,979,479</u>	\$ <u>3,516,278,913</u>

4. Capital Assets

A summary of changes in capital assets for the year ended June 30, 2010 is presented as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Balance June 30, 2010</u>
Capital Assets Not Being Depreciated:			
Intangible Assets	\$ 5,000,000	\$	\$ 5,000,000
Capital Assets Being Depreciated:			
Office Furniture and Equipment	175,641		175,641
Data Processing Systems	13,227,307	42,065	13,269,372
Other Equipment	<u>214,769</u>	<u>87,874</u>	<u>302,643</u>
Total Capital Assets	<u>18,617,717</u>	<u>129,939</u>	<u>18,747,656</u>
Less Accumulated Depreciation for:			
Office Furniture and Equipment	134,674	8,842	143,516
Data Processing Systems	11,671,586	343,449	12,015,035
Other Equipment	<u>150,996</u>	<u>20,910</u>	<u>171,906</u>
Total Accumulated Depreciation	<u>11,957,256</u>	<u>373,201</u>	<u>12,330,457</u>
Net Capital Assets	\$ <u>6,660,461</u>	\$ <u>(243,262)</u>	\$ <u>6,417,199</u>

A summary of changes in capital assets for the year ended June 30, 2009 is presented as follows:

	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2009</u>
Capital Assets Not Being Depreciated:				
Intangible Assets	\$ 5,000,000	\$	\$	\$ 5,000,000
Capital Assets Being Depreciated:				
Office Furniture and Equipment	247,514		71,873	175,641
Data Processing Systems	13,911,081	14,865	698,639	13,227,307
Other Equipment	<u>222,795</u>		<u>8,026</u>	<u>214,769</u>
Total Capital Assets	<u>19,381,390</u>	<u>14,865</u>	<u>778,538</u>	<u>18,617,717</u>
Less Accumulated Depreciation for:				
Office Furniture and Equipment	191,374	15,173	71,873	134,674
Data Processing Systems	12,008,142	362,083	698,639	11,671,586
Other Equipment	<u>139,178</u>	<u>19,844</u>	<u>8,026</u>	<u>150,996</u>
Total Accumulated Depreciation	<u>12,338,694</u>	<u>397,100</u>	<u>778,538</u>	<u>11,957,256</u>
Net Capital Assets	\$ <u>7,042,696</u>	\$ <u>(382,235)</u>	\$	\$ <u>6,660,461</u>

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22.

5. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities at June 30, 2010 and 2009 were as follows:

	2010	2009
Accounts Payable	\$ 17,869,635	\$ 12,019,739
Accrued Payroll	147,273	151,865
	\$ 18,016,908	\$ 12,171,604

6. Revolving Line of Credit

On September 15, 2004, the Authority agreed to reimburse the College Foundation, Inc. for principal, interest, unused commitment fees, and other fees due and payable under certain agreements between the Foundation and Branch Banking & Trust concerning a line of credit for which the Authority is designated as guarantor. The sole purpose of the line of credit is to provide funds for education loans or grant awards in the event that the Authority is unable to remit amounts requested by the Foundation in time for scheduled disbursements. The line of credit expired on September 15, 2010.

Interest accrues on the line of credit at a variable rate based on the 30-day LIBOR rate plus 1%, adjusted monthly. In addition, there is an unused fee of 0.125% per annum on the average daily amount of the unused commitment under the line of credit.

As of June 30, 2010, no disbursements have been made from this line of credit. During the years ended June 30, 2010 and 2009, unused fees of \$6,250 and \$19,896, respectively, were incurred by the Foundation and subsequently reimbursed by the Authority.

On August 3, 2009, the Authority and the College Foundation, Inc. entered into a Loan and Security Agreement with RBC Bank (USA). Under the terms of the Agreement, RBC provides \$50,000,000 revolving credit facility to the Authority which could be used to cover disbursements of eligible student and parent loans prior to inclusion in the Loan Participation Purchase Program established by the U.S. Department of Education. The Authority was responsible for payment of all principal, interest and related fees. During the year ended June 30, 2010, \$178,170 was incurred in fees related to this agreement. The maturity date for this facility was August 1, 2010.

7. Short-Term Debt

Short-term debt represents obligations under the Loan Participation Purchase Program used to finance FFELP student loans for the 2009-2010 academic year. At June 30, 2010, the total obligation related to these participation interests was \$823,685,178. The Authority consummated the sale of its interests in the participated student loans on September 13, 2010.

The Loan Participation Purchase Program was authorized by the "Ensuring Continued Access to Student Loans Act of 2008" (Pub. Law 110-227) (ECASLA). Under the Loan Participation Purchase Program, the Department of Education purchased "participation interests" in FFEL Program loans made during the academic year. In general, the Authority as the "Sponsor" transferred title to the loans to an unrelated entity called the "Custodian." Upon transfer, the loans were placed in a "participation facility" under the control of the Custodian. In exchange for that transfer, the Custodian sold, on behalf of the Sponsor, participation interests in the loans to the Department. The Department bought those participation interests by providing the Custodian with funds equal to the disbursed amount of the loans. The Custodian then provided those funds to the Sponsor, thus providing liquidity to the Authority for the FFEL Program loans for the 2009-2010 academic year. The program ended June 30, 2010.



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8. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2003 Series M (Senior Lien):				
Auction Rate Bonds:				
Series M-1				
Due 7-01-33 (Variable Rate)	\$ 65,000,000	\$	\$	\$ 65,000,000
Series M-2				
Due 7-01-33 (Variable Rate)	65,000,000			65,000,000
Series M-3				
Due 7-01-33 (Variable Rate)	<u>70,000,000</u>			<u>70,000,000</u>
	<u>200,000,000</u>			<u>200,000,000</u>
Taxable Guaranteed Student Loan Revenue Bonds, 2003 Series N (Senior Lien):				
LIBOR Indexed:				
Due 9-01-15 (Variable Rate)	35,712,000		35,712,000	0
Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2004 Series O (Senior Lien):				
Auction Rate Bonds:				
Series O-1				
Due 7-01-34 (Variable Rate)	82,000,000		82,000,000	0
Series O-2				
Due 7-01-34 (Variable Rate)	82,000,000		82,000,000	0
Series O-3				
Due 7-01-34 (Variable Rate)	82,650,000		82,650,000	0
Series O-4				
Due 7-01-34 (Variable Rate)	68,200,000		18,400,000	49,800,000
Series O-5				
Due 7-01-34 (Variable Rate)	<u>75,000,000</u>		<u>17,150,000</u>	<u>57,850,000</u>
	<u>389,850,000</u>		<u>282,200,000</u>	<u>107,650,000</u>
Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien):				
LIBOR Indexed:				
Due 6-01-20 (Variable Rate)	300,000,000			300,000,000
Tax-Exempt Guaranteed Student Loan Revenue Bonds, Series 2005-A:				
Demand Bonds:				
Series A-4				
Due 9-01-35 (Variable Rate)	71,745,000		71,745,000	0

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8. Noncurrent Liabilities (Continued)

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2010</u>
Tax-Exempt Guaranteed Student Loan				
Revenue Bonds, 2006 Series Q				
(Senior/Subordinate Lien):				
Auction Rate Bonds:				
Series Q-2				
Due 7-01-36 (Variable Rate)	\$ 86,500,000	\$	\$ 86,500,000	\$ 0
Series Q-3				
Due 7-01-36 (Variable Rate)	9,300,000		9,300,000	0
Series Q-4				
Due 7-01-36 (Variable Rate)	86,500,000		86,500,000	0
Series Q-Sub				
Due 7-01-36 (Variable Rate)	<u>30,000,000</u>		<u>30,000,000</u>	<u>0</u>
	<u>212,300,000</u>		<u>212,300,000</u>	<u>0</u>
Tax-Exempt Guaranteed Student Loan				
Revenue Bonds, 2007 Series S				
(Senior/Subordinate Lien):				
Auction Rate Bonds:				
Series S-1				
Due 7-01-37 (Variable Rate)	85,000,000		85,000,000	0
Series S-2				
Due 7-01-37 (Variable Rate)	84,800,000		84,800,000	0
Series S-3				
Due 7-01-37 (Variable Rate)	84,800,000		84,800,000	0
Series S-4				
Due 7-01-37 (Variable Rate)	84,800,000			84,800,000
Series S-5				
Due 7-01-37 (Variable Rate)	84,800,000		84,800,000	0
Series S-Sub				
Due 7-01-37 (Variable Rate)	<u>10,000,000</u>		<u>10,000,000</u>	<u>0</u>
	<u>434,200,000</u>		<u>349,400,000</u>	<u>84,800,000</u>
Taxable Guaranteed Student Loan				
Revenue Private Placement Bonds				
2008-1 Series:				
LIBOR Indexed:				
Series A-1				
Due 6-01-33 (Variable Rate)	890,000,000		861,200,000	28,800,000
Series A-2				
Due 6-01-33 (Variable Rate)	<u>200,000,000</u>			<u>200,000,000</u>
	<u>1,090,000,000</u>		<u>861,200,000</u>	<u>228,800,000</u>
Tax- Exempt Guaranteed Student Loan				
Revenue and Refunding Bonds				
2008-2 Series:				
Demand Bonds:				
Series A-1				
Due 7-01-36 (Variable Rate)	150,000,000		15,455,000	134,545,000
Series A-2				
Due 9-01-35 (Variable Rate)	<u>159,855,000</u>			<u>159,855,000</u>
	<u>309,855,000</u>		<u>15,455,000</u>	<u>294,400,000</u>



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8. Noncurrent Liabilities (Continued)

D. Demand Bonds:

Included in bonds payable are several variable rate demand bond issues. These bonds contain a "put" feature that allows bondholders to demand payment before the maturity of the bonds upon proper notice to the Authority's tender agent. The Authority has not entered into legal agreements that would convert the bonds not successfully remarketed into another form of long-term debt.

**2008-2 Series:** On October 30, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-2 in the amount of \$309,855,000 consisting of two tranches of tax-exempt bonds. Series A-1 in the original issue amount of \$150,000,000 matures on July, 1 2036, but \$25 million must be retired by mandatory sinking fund redemption on July 1, 2016. Series A-2 in the original issue amount of \$159,855,000 matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2006-Q and 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

**2008-3 Series:** On November 21, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-3 in the amount of \$105,945,000 consisting of two tranches of tax-exempt bonds. Series A-1 in the original issue amount of \$30,000,000 matures on July 1, 2027. Series A-2 in the original issue amount of 75,945,000 matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 1997-E and 2005-A bonds, make deposits into the reserve fund, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

**2008-5 Series:** On December 12, 2008, the Authority issued Guaranteed Student Loan Revenue and Refunding Bonds, Series 2008-5 in the original issue amount of \$159,855,000 consisting of one tranche of tax-exempt bonds. This series of bonds matures on September 1, 2035. The proceeds of this issuance were used to finance student loans, refund the Authority's outstanding Series 2005-A bonds, make deposits into the reserve funds, make a deposit into the operating fund, and pay issuance costs. While bearing interest at a weekly rate, the bonds are subject to purchase on demand with seven day's notice to the tender agent.

Each of the 2008 variable rate demand bonds described herein are being remarketed pursuant to remarketing agreements, and each is backed by an irrevocable letter of credit in favor of The Bank of New York Mellon NA, as bond trustee. Three different banks issued the letters of credit (RBC, Bank of America, and BB&T). There have been no draws on the letters of credit, but there are "Facility Fees" payable to the issuing banks set at .90%.

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8. Noncurrent Liabilities (Continued)

E. Annual Requirements:

The annual requirements to pay principal and interest on bonds outstanding at June 30, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 84,800,000	\$ 36,009,890
2012		36,009,890
2013		36,009,890
2014		36,009,890
2015		36,009,890
2016-2020	300,000,000	179,854,944
2021-2025		168,378,964
2026-2030	27,900,000	167,976,929
2031-2035	1,176,450,000	91,590,534
2036-2040	<u>524,500,000</u>	<u>1,793,513</u>
Total Requirements	<u>\$ 2,113,650,000</u>	<u>\$ 789,644,334</u>

The annual requirements to pay principal and interest on notes outstanding at June 30, 2010 are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 120,500,000	\$ 5,754,473
2012	120,500,000	5,754,473
2013	120,500,000	5,754,473
2014	<u>1,199,024,745</u>	<u>3,117,006</u>
Total Requirements	<u>\$ 1,560,524,745</u>	<u>\$ 20,380,425</u>

The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2001 Series J (Senior Lien) are auction rate bonds due July 1, 2031. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2002 Series K (Senior Lien) are auction rate bonds due July 1, 2032. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2003 Series M (Senior Lien) are auction rate bonds due July 1, 2033. The Tax-Exempt Guaranteed Student Loan Revenue Bonds, 2004 Series O (Senior Lien) are auction rate bonds due July 1, 2034. The Taxable Guaranteed Student Loan Revenue Bonds, 2005 Series P (Senior Lien) are LIBOR indexed bonds due June 1, 2020. The Tax -Exempt Guaranteed Student Loan Revenue Bonds, 2007 Series S (Senior/Subordinate Lien) are auction rate bonds due July 1, 2037. The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-1 Series are LIBOR indexed bonds due June 1, 2033. The Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds, 2008-2 Series are demand bonds due July 1, 2036 and September 1, 2035. The Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds, 2008-3 Series are demand bonds due July 1, 2027 and September 1, 2023. The Taxable Guaranteed Student Loan Revenue Private Placement Bonds, 2008-4 Series are LIBOR indexed bonds due December 1, 2033. The Tax Exempt Guaranteed Student Loan Revenue and Refunding Bonds, 2008-5 Series are demand bonds due September 1, 2023. All of the above series have a variable interest rate that changes weekly to quarterly. The annual interest requirements in the schedule above were calculated using the rate in effect on June 30, 2010. Therefore, the debt service interest requirements on the aforementioned series will change on a weekly to quarterly basis throughout the life of the bonds.



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8. Noncurrent Liabilities (Concluded)

F. Bond Defeasance:

During the year ended June 30, 2010, the Authority entered into funding note purchase agreements in the amount of \$745,000,000 with an initial interest rate of .23229% and \$832,000,000 with an initial interest rate of .27665%. The refunding component of these agreements was used for a current refunding of \$1,485,424,306 of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 2.26%. The refunding was undertaken to reduce total debt service payments by \$765,664,847 over the next 27 years and resulted in an economic gain on the reduction of interest payments of \$107,363,789.

During the year ended June 30, 2009, the Authority issued \$309,855,000 in 2008-2 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.85%, \$105,945,000 in 2008-3 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of 1.35%, and \$159,855,000 in 2008-5 Series Tax-Exempt Guaranteed Student Loan Revenue and Refunding Bonds with an initial interest rate of .95%. The refunding component of these issues was used for a current refunding of \$551,855,000 of outstanding Tax-Exempt Student Loan Revenue Bonds with an average interest rate of 4.26%. The refunding was undertaken to reduce total debt service payments by \$403,723,466 over the next 28 years and resulted in an economic gain of \$330,926,229.

9. Arbitrage Rebate and Excess Earnings Liability

The Internal Revenue Code (IRC) and arbitrage regulations issued by the IRS require rebate to the federal government of excess investment earnings on bond proceeds if the yield on those earnings exceeds the effective yield on the related tax-exempt bonds issued. Regulations also exist for calculating rebate earnings in connection with the accounting for bond proceeds, refunding issues, and proceeds that are commingled with other funds for investment purposes. Rebates are payable every five years from date of bond issue or upon maturity of the bonds, whichever is earlier.

Additionally, the IRC and U. S. Treasury Regulations permit issuers of qualified student loan tax-exempt obligations to earn no more than 2.0% above the bond yield on the qualified student loans financed with such tax-exempt obligations. For excess earnings on qualified student loans, issuers may elect to pay such excess to the U.S. Treasury or return such excess to the borrowers of qualified student loans financed by the tax-exempt obligations. The Authority has elected to implement a program of borrower benefits in order to return such excess to borrowers.

The Authority had computations made to determine the arbitrage rebate and excess earnings liability at June 30, 2010 and 2009. Based on those results, the Authority incurred a reduction in expense payable of \$1,886,604 for the year ended June 30, 2010 and a reduction in expense payable of \$3,163,055 for the year ended June 30, 2009. This expense is determined using the "Future Value" method of determining cumulative arbitrage rebate and excess earnings liability, as set forth in the U.S. Treasury Regulations and is based on cash flows created by investment, sale, maturity of and earnings on gross bond proceeds. As of June 30, 2010 and 2009, the Authority reported amounts of \$689,171 and \$2,575,775, respectively, for the arbitrage rebate and excess earnings liability. The Authority's General Resolutions require that specific portions of the liability be deposited in the Rebate Fund maintained by the Bond Trustee by September 30 of each year.

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10. 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 or the Optional Retirement Program. Eligible employees can elect to participate in the Optional Retirement Program at the time of employment; otherwise they are automatically enrolled in the Teachers' and State Employees' Retirement System.

The Teachers' and State Employees' Retirement System is a cost sharing multiple-employer defined benefit pension plan established by the State to provide pension benefits for employees of the State, its component units, and local boards of education. The plan is administered by the North Carolina State Treasurer.

Benefit and contribution provisions for the Teachers' and State Employees' Retirement System are established by North Carolina General Statutes 135-5 and 135-8 and may be amended only by the North Carolina General Assembly. Employer and member contribution rates are set each year by the North Carolina General Assembly based on annual actuarial valuations. For the year ended June 30, 2010, these rates were set at 3.57% of covered payroll for employers and 6.00 % of covered payroll for members. Required employer contribution rates for the years ended June 30, 2009 and 2008 were 3.36% and 3.05%, respectively, while employee contributions were 6% each year. The Authority made 100% of its annual required contributions for the years ended June 30, 2010, 2009, and 2008.

The Teachers' and State Employees' Retirement System's financial information is included in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed Directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

The Optional Retirement Program (Program) is a defined contribution retirement plan that 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 Board of Governors of The University of North Carolina is responsible for the administration of the Program and designates the companies authorized to offer investment products or the trustee responsible for the investment of contributions under the Program and approves the form and contents of the contracts and trust agreements.

Participants in the Program are immediately vested in the value of employee contributions. The value of employer contributions is vested after five years of participation in the Program. Participants become eligible to receive distributions when they terminate employment or retire.

Participant eligibility and contributory requirements are established by General Statute 135-5.1. Employer and member contribution rates are set each year by the North Carolina General Assembly. For the years ended June 30, 2010 and 2009, these rates were set at 6.84% of covered payroll for employers and 6% of covered payroll for members. The Authority assumes no liability other than its contribution.

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10. Pension Plans (Continued)

For the years ended June 30, 2010 and 2009, the Authority had a total payroll of \$2,785,780 and \$2,779,328, respectively, of which \$2,470,649 and \$2,481,287 was covered under the Teachers' and State Employees' Retirement System and \$296,738 and \$298,041 was covered under the Optional Retirement Program. Total employee contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2010 and 2009 were \$148,239 and \$148,877, respectively. Total employee contributions under the Optional Retirement Program for the years ended June 30, 2010 and 2009 were \$17,804 and \$17,882, respectively. Total employer contributions for pension benefits under the Teachers' and State Employees' Retirement System for the years ended June 30, 2010, 2009, and 2008 were \$88,202, \$83,371, and \$68,562, respectively. Total employer contributions under the Optional Retirement Program for the years ended June 30, 2010, 2009, and 2008 were \$20,297, \$20,386, and \$19,516, respectively.

B. Deferred Compensation and Supplemental Retirement Income Plans:

IRC Section 457 Plan - The State of North Carolina offers its permanent employers a deferred compensation plan created in accordance with Internal Revenue Code Section 457 through the North Carolina Public Employee Deferred Compensation Plan (the Plan). The Plan permits each participating employee to defer a portion of his or her salary until future years. The deferred compensation is available to employees upon separation from service, death, disability, retirement or financial hardships if approved by the Board of Trustees of the Plan. The Board, a part of the North Carolina Department of Administration, maintains a separate fund for the exclusive benefit of the participating employees and their beneficiaries, *the North Carolina Public Employee Deferred Compensation Trust Fund*. The Board also contracts with an external third party to perform certain administrative requirements and to manage the trust fund's assets. All costs of administering and funding the Plan are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$36,884 and \$22,404 for the years ended June 30, 2010 and 2009, respectively.

IRC 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, a defined contribution 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. The voluntary contributions by employees amounted to \$56,302 and \$54,712 for the years ended June 30, 2010 and 2009, respectively.

IRC Section 403(b) and 403(b)(7) Plans - Eligible Authority employees 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 nonprofit institutions. All costs of administering and funding these plans are the responsibility of the Plan participants. No costs are incurred by the Authority. The voluntary contributions by employees amounted to \$21,960 and \$25,764 for the years ended June 30, 2010 and 2009, respectively.

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11. Other Postemployment Benefits

A. Health Benefits:

The Authority participates in the Comprehensive Major Medical Plan (the Plan), a cost sharing, multiple-employer defined benefit health care plan that provides postemployment health insurance to eligible former employees. Eligible former employees include long-term disability beneficiaries of the Disability Income Plan of North Carolina and retirees of the Teachers' and State Employees' Retirement System or the Optional Retirement Program. Coverage eligibility varies depending on years of contributory membership service in their retirement system prior to disability or retirement.

The Plan benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3A, of the General Statutes and may be amended only by the North Carolina General Assembly. The Plan does not provide for automatic post-retirement benefit increases.

By General Statute, a Retiree Health Benefit Fund (the Fund) has been established as a fund in which accumulated contributions from employers and any earnings on those contributions shall be used to provide health benefits to retired and disabled employees and applicable beneficiaries. By statute, the Fund is administered by the Board of Trustees Teachers' and State Employees' Retirement System and contributions to the fund are irrevocable. Also by law, Fund assets are dedicated to providing benefits to retired and disabled employees and applicable beneficiaries and are not subject to the claims of creditors of the employers making contributions to the Fund. Contribution rates to the Fund, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly.

For the current fiscal year, the Authority contributed 4.5% of the covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the Fund. Required contribution rate for the years ended June 30, 2009 and 2008 was 4.1%. The Authority made 100% of its annual required contributions to the Plan for the years ended June 30, 2010, 2009, and 2008, which were \$124,532, \$113,952, and \$103,864, respectively. The Authority assumes no liability for retiree health care benefits provided by the programs other than its required contribution.

Additional detailed information about these programs can be located in the State of North Carolina's *Comprehensive Annual Financial Report*. An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.osc.nc.gov/> and clicking on "Proceed directly to OSC's index page," then "Reports," or by calling the State Controller's Financial Reporting Section at (919) 981-5454.

B. Disability Income:

The Authority participates in the Disability Income Plan of North Carolina (DIPNC), a cost-sharing, multiple-employer defined benefit plan, to provide short-term and long-term disability benefits to eligible members of the Teachers' and State Employees' Retirement System and the Optional Retirement Program. Benefit and contribution provisions are established by Chapter 135, Article 6 of the General Statutes, and may be amended only by the North Carolina General Assembly. The plan does not provide for automatic post-retirement benefit increases.

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11. Other Postemployment Benefits (Continued)

Disability income benefits are funded by actuarially determined employer contributions that are established by the General Assembly. For the fiscal year ended June 30, 2010, the Authority made a statutory contribution of .52% of covered payroll under the Teachers' and State Employees' Retirement System and the Optional Retirement Program to the DIPNC. The required contribution rate for the years ended June 30, 2009 and 2008 was .52%. The Authority made 100% of its annual required contributions to the DIPNC for the years ended June 30, 2010, 2009, and 2008, which were \$14,390, \$14,452, and \$13,173, respectively. The Authority assumes no liability for long-term disability benefits under the DIPNC other than its contribution.

Additional detailed information about the DIPNC is disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*.

12. Insurance

Physical plant and equipment used by the Authority and reported on the statement of net assets 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.

Additional details on the state-administered risk management programs are disclosed in the State of North Carolina's *Comprehensive Annual Financial Report*, issued by the Office of the State Controller.

13. Subsequent Events

The Loan Participation Purchase Program authorized by the "Ensuring Continued Access to Student Loans Act of 2008" (Pub.Law 110-227) (ECASLA) ended June 30, 2010. As of June 30, 2010, the Authority's obligation related to the participation interest was \$823,685,178. The Authority must "redeem" or "put" (turn over ownership) of the associated financed student loans by October 2010. The Authority sold all interest in the loans to the Department of Education under the Master Loan Sale Agreement on September 13, 2010.

The Authority is currently in the process of considering all financing and refinancing options available and has authorized the issuance of approximately \$915 million in Student Loan Backed Notes for the purposes of refunding and defeasing certain prior obligations. The Authority expects to close one or more transactions to accomplish this purpose during the coming year.

Subsequent events have been evaluated through September 30, 2010, which is the date the financial statements were issued.

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**APPENDIX B**

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

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

**General**

Part B, Title IV of the Higher Education Act (20 U.S.C. § 1071, *et. seq.*), 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” or “FFELP”). Several types of loans are currently authorized as Federal Family Education Loans pursuant to this program. These include: (i) loans to students 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 and, for loans certified on or after July 1, 2006, graduate and professional students (“Federal PLUS Loans”); and (iv) loans to fund payment and consolidation of Federal Family Education 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.

The Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) (“HCERA”) was signed into law on March 30, 2010, and, among other things, required all new federal student loans with a first disbursement date after June 30, 2010 to be originated through the Federal Direct Student Loan Program. As a result of the passage of the HCERA, the Foundation may no longer originate federal student loans. Loans previously made under the NCFFELP, however, continue to be guaranteed by the Authority and reinsured by the federal government, as discussed herein (including the appendices hereto).

This summary of certain provisions of the FFELP 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 promulgated thereunder. This summary is intended as a general description of the FFELP 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 Offering Memorandum, and this Offering Memorandum speaks only as of its date.

**Legislative and Administrative Matters**

Since original enactment, both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendment. There can be no assurance that further amendments or modifications will not adversely impact the programs described below and Student Loans made thereunder.

No representation is made as to the effect, if any, of recent or future federal budgetary appropriation, legislation or regulatory actions upon expenditures by the U.S. 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 holders 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 under certain circumstances. The authority to originate new Subsidized Federal Stafford Loans has expired for loans that were not first disbursed before July 1, 2010.

Eligible Student. Generally, in order to be an eligible Subsidized Federal Stafford Loan, a loan must have been 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.

Promissory Notes. Subsidized Federal Stafford Loans and Unsubsidized Federal Stafford Loans are evidenced by an unsecured promissory note(s). Beginning on or about July 1, 1999 and continuing through June 30, 2010, new loans were evidenced by a “Master Promissory Note.” A Master Promissory Note was designed to be used as both a single year and as a multi-year note. Under the Master Promissory Note process, most borrowers signed a promissory note once, at the time they first borrowed. They may have obtained additional loans, based on that same note, during the same year or in subsequent years. Generally, a lender’s ability to make subsequent loans to a borrower, based on the Master Promissory Note, expired upon the earliest of: (i) 12 months after the original Master Promissory Note was signed if no disbursements had been made using that Master Promissory Note, (ii) 10 years from the date the Master Promissory Note was signed or the date the lender received the Master Promissory Note if the Master Promissory Note was not dated or (iii) the date the lender received written notice from the borrower that the Master Promissory Note could no longer be used as the basis for making additional loans.

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 annual interest rate on Federal Stafford Loans, Subsidized or Unsubsidized, first disbursed on or after July 1, 1998 but before July 1, 2006 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.

The interest rate on Federal Stafford Loans, Subsidized or Unsubsidized, first disbursed on or after July 1, 2006, but before July 1, 2010, is a fixed rate of 6.8%, except that Subsidized Federal Stafford Loans to undergraduate students for which the first disbursement was made on or after July 1, 2008 and before July 1, 2010 have the following fixed rates:

<u>Date of First Disbursement</u>	<u>Fixed Interest Rate</u>
On or after July 1, 2008 and before July 1, 2009	6.0%
On or after July 1, 2009 and before July 1, 2010	5.6%

Loan Amounts. Prior to July 1, 2010, the date of expiration of authority to originate new Federal Stafford Loans, the maximum amount of a Subsidized Federal Stafford Loan for an academic year could not exceed \$3,500 for the first year of undergraduate study, \$4,500 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 and ending with loans first disbursed prior to July 1, 2010, for graduate students could not exceed \$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 retained 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 were available to borrowers in amounts not exceeding their unmet need, determined as provided in the Higher Education Act.

Repayment. Repayment of principal on a Federal Stafford Loan, Subsidized or Unsubsidized, generally begins upon expiration of the applicable grace period, as described below. 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 law requires that a borrower's total payments with respect to the aggregate amount of his or her Federal Stafford Loans during the year under a standard schedule total at least \$600 unless the balance of such Federal Stafford Loans are less than \$600 or 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, income-sensitive or, if applicable, extended repayment schedule, in accordance with regulations of the Secretary. Extended repayment schedules are available to new borrowers on or after October 7, 1998 who have more than \$30,000 in outstanding principal and interest in FFELP loans. Under these schedules, loans must be repaid over a period of not more than 25 years, with a fixed or graduated payment amount. Effective July 1, 2009, lenders must also offer an income-based repayment schedule. 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. The grace period is generally 6 months, excluding any period during which a borrower who is a member of a reserve component of the Armed Forces is called or ordered to active duty for a period of more than 30 days. For Subsidized Federal Stafford Loans, the lender continues to bill the U.S. 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 U.S. Department of Education. For Subsidized Federal Stafford Loans, the lender continues to bill the U.S. Department of Education for the interest that accrues during the deferment period. Periods of deferment are excluded in determining the total length of the repayment period.

For borrowers to whom loans were first disbursed on or after July 1, 1993, repayment of principal may be deferred while the borrower is at least a half-time student; is enrolled in an approved graduate fellowship program; is enrolled in a rehabilitation training program; is seeking but unable to find full-time employment, subject to a maximum deferment of three years; or when the lender determines that the borrower is entitled, as prescribed by the U.S. Department of Education, to an economic hardship deferment, which is also subject to a maximum deferment of three years.

Repayment of principal also may be deferred while the borrower is serving on active duty during a war or other military operation or national emergency or while the borrower is performing qualifying National Guard duty during a war or other military operation or national emergency and for the 180-day period following the demobilization date. Borrowers who were enrolled or had been enrolled within 6 months prior to being called or ordered to active duty are also eligible for a deferment during the 13 months following the conclusion of such service, except that the deferment shall expire upon the borrower's return to an enrolled student status.

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 a period of forbearance upon verbal or written request from the borrower 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 U.S. 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. Interest accrues throughout any period of forbearance and must be either paid by the borrower or capitalized; accrued interest for forbearance periods may not be capitalized more frequently than quarterly. For Subsidized Federal Stafford Loans first disbursed on or after July 1, 2000, interest can only be capitalized 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 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 on a quarterly basis. If a borrower's monthly payment under an income-based repayment schedule is not sufficient to pay the accruing interest, the Secretary will pay the interest that exceeds the scheduled monthly payment during a consecutive 3-year period beginning with the date each loan enters income-based repayment. 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. The Higher Education Act also limited the Secretary's authority to make Interest Subsidy Payments to loans first disbursed prior to July 1, 2010.

Special Allowance Payments. The Higher Education Act provides for Special Allowance Payments to be made by the Secretary on a quarterly basis 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 U.S. 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, 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 January 1, 2000, 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 but before July 1, 2010, 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 the following percentages, as applicable:

<u>Loan Status</u>	<u>Loans Made January 1, 2000 through September 30, 2007</u>	<u>Loans Made on or after October 1, 2007 but before July 1, 2010 and Held by For-Profit Holder</u>	<u>Loans Made on or after October 1, 2007 but before July 1, 2010 and Held by Eligible Not-For-Profit Holder</u>
In-school, Grace, or Deferment	1.74%	1.19%	1.34%
Repayment or Forbearance	2.34%	1.79%	1.94%

For loans first disbursed on or after April 1, 2006 but before July 1, 2010, lenders must repay excess interest quarterly when the Applicable Loan Rate exceeds the “special allowance support level,” which is equivalent to the CP Rate plus the applicable percentage included in the preceding table.

Lender Fee. For any loan first disbursed on or after October 1, 1993 but prior to October 1, 2007, a lender was required to pay to the Secretary a fee equal to 0.50% of the loan amount disbursed during the quarter. This fee increased to 1.00% for loans first disbursed on or after October 1, 2007 but before July 1, 2010.

Origination Fee. The lender is required to pay to the Secretary a fee equal to a specified percentage of the principal amount of each Stafford Loan and may charge such fee to the borrower. Such fees are as follows:

<u>Applicable Loans</u>	<u>Origination Fee</u>
Loans made prior to July 1, 2006	3.0%
Loans made July 1, 2006 through June 30, 2007	2.0%
Loans made July 1, 2007 through June 30, 2008	1.5%
Loans made July 1, 2008 through June 30, 2009	1.0%
Loans made July 1, 2009 through June 30, 2010	0.5%

Federal Default Fee. For any loan guaranteed on or after July 1, 2006 and first disbursed before July 1, 2010, guaranty agencies must charge and collect a federal default fee equal to 1% of the loan amount disbursed. The fee must be either deducted from the proceeds of the loan or paid on the borrower's behalf from non-federal sources.

### **Unsubsidized Federal Stafford Loans**

The authority to originate new Unsubsidized Federal Stafford Loans has expired for loans that were not first disbursed before July 1, 2010. Effective for periods of enrollment beginning after September 30, 1992 and ending with loans first disbursed prior to July 1, 2010, Unsubsidized Federal Stafford Loans were available to students who met eligibility requirements for loans but did not qualify for the Federal Interest Subsidy Payments on the maximum allowable loan amount. An eligible student may have received both a Subsidized Federal Stafford Loan and an Unsubsidized Federal Stafford Loan for the same enrollment period; however, the combination may not have exceeded the annual or aggregate loan limits specified in federal statute or regulations. Unsubsidized Federal Stafford Loans were available to both dependent and independent students; however, independent students had 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 were 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 have borrowed up to an additional \$4,000 for a full-year program (prorated amounts were available for shorter programs of study); up to \$5,000 each year for the remainder of the undergraduate program; up to \$7,000 for borrowers who either had earned a baccalaureate degree and needed to take preparatory courses prior to entering a graduate program or who were in a teacher certification program; and up to \$12,000 for graduate programs. For loans first disbursed on or after July 1, 2008 but prior to July 1, 2010, annual loan limits were those applicable to Subsidized Federal Stafford Loans but were increased in some categories for both dependent and independent undergraduate students or dependent undergraduate students whose parents were unable to borrow a Federal PLUS Loan or Federal Direct PLUS Loan by \$2,000.

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 or subsequently, the phase out of that program; for such students the combination of Subsidized and Unsubsidized Federal Stafford Loans may have exceeded 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 Stafford Loans under the Federal Direct Student Loan Program. For loans first disbursed on or after July 1, 2008 but prior to July 1, 2010, the date of expiration of authority to originate new Federal Stafford Loans, the aggregate limit for (i) dependent undergraduate students increased to \$31,000 excluding Federal SLS/PLUS loans and (ii)

independent undergraduate students or dependent undergraduate students whose parents could not borrow a Federal PLUS Loan or Federal Direct PLUS Loan increased to \$57,500; provided that, no more than \$23,000 could be subsidized.

The Special Allowance Payment provisions, and the lender and federal default 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) and the interest rate applicable to undergraduate students, is that the federal government does not make Interest Subsidy Payments for an Unsubsidized Federal Stafford Loan.

The repayment period on an Unsubsidized Federal Stafford Loan generally 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 upon disbursement. 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). During deferment periods on Unsubsidized Federal Stafford 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. For Unsubsidized Federal Stafford Loans first disbursed on or after October 7, 1998, interest can only be capitalized at the end of the deferment period. 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 Loans**

The authority to originate new Federal PLUS Loans has expired for loans that were not first disbursed before July 1, 2010. Previously, Federal PLUS Loans were made to parents of eligible dependent students or, effective for loans certified on or after July 1, 2006, graduate and professional students. Only applicants who did not have an adverse credit history were 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 guaranty agencies 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 for Federal PLUS Loans and Special Allowance Payments are made only under certain conditions.

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

Promissory Notes. Federal PLUS Loans are evidenced by an unsecured promissory note(s). Beginning on or about July 1, 2003 and continuing through June 30, 2010, new loans were evidenced by a "Master Promissory Note." A Master Promissory Note was designed to be used as both a single year and as a multi-year note. Under the Master Promissory Note process, most borrowers signed a promissory note once, at the time they first borrowed. They may have obtained additional loans, based on that same note, during the same year or in subsequent years. Generally, a lender's ability to make subsequent loans to a borrower, based on the Master Promissory Note, expired upon the earliest of:

(i) 12 months after the original Master Promissory Note was signed if no disbursements had been made using that Master Promissory Note,

(ii) 10 years from the date the Master Promissory Note was signed or the date the lender received the Master Promissory Note if the Master Promissory Note was not dated, or

(iii) the date the lender received written notice from the borrower that the Master Promissory Note could no longer be used as the basis for making additional loans.

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 weekly average of the 1-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System, for the last calendar week ending on or before June 26<sup>th</sup> preceding the July 1<sup>st</sup> effective date and (ii) a “spread” factor of 3.1%. For Federal PLUS Loans first disbursed on or after July 1, 1998 but before July 1, 2006, 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%. The interest rate on Federal PLUS Loans first disbursed on or after July 1, 2006 but before July 1, 2010, is a fixed rate of 8.5%.

Special Allowance Payments. For Federal PLUS Loans first disbursed on or after July 1, 1994 but prior to January 1, 2000, the Special Allowance Payment is 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, 2010, the Special Allowance Payment is the equivalent of the CP Rate minus the Applicable Loan Rate plus the following percentages, as applicable:

<u>Loan Type</u>	<u>Loans Made January 1, 2000, through September 30, 2007</u>	<u>Loans Made on or after October 1, 2007 but before July 1, 2010 and Held by For-Profit Holder</u>	<u>Loans Made on or after October 1, 2007 but before July 1, 2010 and Held by Eligible Not-For-Profit Holder</u>
PLUS Loan	2.64%	1.79%	1.94%

For Federal PLUS Loans first disbursed on or after April 1, 2006 but before July 1, 2010, lenders must repay excess interest quarterly when the Applicable Loan Rate exceeds the “special allowance support level,” which is equivalent to the CP Rate plus the applicable percentage included in the preceding table.

In the case of Federal PLUS Loans on which the first disbursement was made after July 1, 1998 but before July 1, 2006, 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%. This restriction on Special Allowance Payments does not apply for Federal PLUS Loans first disbursed on or after January 1, 2000, beginning April 1, 2006.

Repayment. Repayment of principal of a Federal PLUS Loan is required to commence no later than 60 days after the date the loan is fully disbursed, subject to certain deferral provisions. Lenders are required to offer borrowers a choice of a standard, graduated, income sensitive or, if applicable, extended repayment schedule. Effective July 1, 2009, lenders must also offer an income-based repayment schedule to graduate and professional student PLUS Loan borrowers.



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.

Lender Fee. For any loan first disbursed on or after October 1, 1993 but prior to October 1, 2007, a lender was required to pay to the Secretary a fee equal to 0.50% of the loan amount disbursed during the quarter. This fee increased to 1.00% for loans first disbursed on or after October 1, 2007 but before July 1, 2010.

Origination Fee. For loans first disbursed before July 1, 2010, the lender was required to pay the Secretary a fee equal to 3% of the principal amount of each Federal PLUS Loan. This fee was charged to the borrower.

Federal Default Fee. For any loans guaranteed on or after July 1, 2006 and first disbursed before July 1, 2010, guaranty agencies were required to charge and collect a federal default fee equal to 1% of the loan amount disbursed. The fee must have been either deducted from the proceeds of the loan or paid on the borrower's behalf from non-federal sources.

### **Federal Consolidation Loans**

The Higher Education Act previously authorized a program under which certain borrowers could consolidate their various student loans into a single loan insured and reinsured on a basis similar to Federal Stafford Loans. Although the authority for this program expired on June 30, 2010, Federal Consolidation Loans were generally 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 FFELP 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 have been either in repayment status or in a grace period preceding repayment on the loans chosen for consolidation and must not have been subject to a judgment or an order for wage garnishment unless the judgment had been vacated or the order had been lifted. If any loans being considered for consolidation were in default, the borrower must have made satisfactory repayment arrangements with the holder of the defaulted loan or have agreed to an income-sensitive repayment plan. Borrowers were allowed to add additional loans to a Federal Consolidation Loan during the 180-day period following origination of the Federal Consolidation Loan. Federal Consolidation Loan eligibility was generally lost once a borrower had received a Federal Consolidation Loan unless the borrower had additional eligible loans not previously consolidated or the borrower was consolidating the existing Federal Consolidation Loan with at least one other eligible loan. A Federal Consolidation Loan was federally insured or reinsured only if such loan was made in compliance with requirements of the Higher Education Act.

Interest Rates. Except for any portion of a Federal Consolidation Loan attributable to Health Education Assistance Loans ("HEAL"), loans made on or after July 1, 1994 from consolidation applications received before November 13, 1997 bear an interest rate which equals the weighted average of interest rates on the loans consolidated, 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%.

Federal Consolidation Loans based upon consolidation applications received on or after October 1, 1998 and disbursed before July 1, 2010, bear a fixed interest rate 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%.

For the portion of a Federal Consolidation Loan attributable to HEAL, the annual variable interest rate is equal to the average of the bond equivalent rates of the 91-day Treasury Bills auctioned for the quarter ending June 30, plus 3%. There is no maximum interest rate on this portion of the loan.

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 Family Education Loans or subsidized Direct 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. Except for any portion of a Federal Consolidation Loan attributable to HEAL, loans based on consolidation applications received prior to October 1, 1998, receive Special Allowance Payments based upon 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 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, there will 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 rate determined for such loans. For Federal Consolidation Loans based upon consolidation applications received on or after January 1, 2000 and disbursed before July 1, 2010, the Special Allowance Payment is the equivalent of the CP Rate minus the Applicable Loan Rate plus the following percentages, as applicable:

Loan Type	Loans Made January 1, 2000, through September 30, 2007	Loans Made on or after October 1, 2007 but before July 1, 2010 and Held by For-Profit Holder	Loans Made on or after October 1, 2007 but before July 1, 2010 and Held by Eligible Not-For-Profit Holder
Consolidation Loan	2.64%	2.09%	2.24%

For Federal Consolidation Loans first disbursed on or after April 1, 2006 but before July 1, 2010, lenders must repay excess interest quarterly when the Applicable Loan Rate exceeds the “special allowance support level,” which is equivalent to the CP Rate plus the applicable percentage included in the preceding table.

For Federal Consolidation Loans based upon consolidation applications received on or after January 1, 2000 and disbursed before July 1, 2010, there will 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.

No Special Allowance Payment will be made on the portion of a Federal Consolidation Loan attributable to HEAL.

Further, no insurance premium could be charged to a borrower and no insurance premium could be charged to a lender in connection with a Federal Consolidation Loan. However, a fee could be charged to the lender by the guaranty agency 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 but before July 1, 2010, 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 was reduced 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. Generally, depending on the total of loans outstanding, repayment may be scheduled over periods no shorter than 10 but not more than 30 years in length. The maximum maturity schedule is 30 years for Federal Consolidation Loans of \$60,000 or more. Lenders are required to offer borrowers a choice of a standard, graduated, income sensitive or, if applicable, extended repayment schedule. Effective July 1, 2009, lenders must also offer an income-based repayment schedule, except that an income-based repayment schedule is not available to Federal Consolidation Loan borrowers whose loans were used to payoff parent Federal PLUS Loans.

Direct Loans. If, before July 1, 2010, a borrower was unable to obtain a Federal Consolidation Loan or unable to obtain one 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 was required to offer the borrower, if the borrower so requested, a Direct Consolidation Loan under the Federal Direct Student Loan Program ("FDSLP"). Such Direct Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provisions under the Federal Consolidation Loan provisions. In addition, if a borrower with a Federal Consolidation Loan has become delinquent or defaulted and the holder has requested default aversion assistance from the guaranty agency, the borrower may obtain a subsequent Direct Consolidation Loan for the purpose of securing an income-contingent repayment schedule (or effective July 1, 2009, an income-based repayment schedule). Effective July 1, 2008, a borrower with a Federal Consolidation Loan may obtain a subsequent Direct Consolidation Loan for the purpose of using the public service loan forgiveness program created exclusively for FDSLP borrowers. If the Secretary determines that the U.S. Department of Education does not have the necessary origination and servicing arrangements in place for such loans, the Secretary shall not offer such loans.

Lender Fee. For any loan first disbursed on or after October 1, 1993 but prior to October 1, 2007, a lender was required to pay to the Secretary a fee equal to 0.50% of the loan amount disbursed during the quarter. This fee increased to 1.00% for loans first disbursed on or after October 1, 2007 but prior to July 1, 2010.

## **Federal Insurance and Reinsurance and Reimbursement of Loan Holders**

The lender or holder is entitled to be reimbursed by the guaranty agency based on a specific guaranty percentage of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted, so long as such loan has been properly serviced. Such guaranty percentages vary based on the date of the first disbursement on the loan and certain other factors, as detailed in the table below:

	<u>Guaranty Percentage</u>
Any non-default claim resulting from the death, disability or bankruptcy of the borrower, a false certification claim, or a closed school claim	100%
Loans made October 1, 1993 through June 30, 2006	98%
Loans made July 1, 2006 through June 30, 2010	97%

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 guaranty agency has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guaranty agency may take reasonable action including withholding of payments or requiring reimbursement of funds. The guaranty agency may also terminate the agreement with the holder for cause upon notice and hearing.

## **Federal Insurance and Reinsurance and Reimbursement of Guaranty Agencies**

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 guaranty agency, with respect to defaulted loans and certain other special cases. The Secretary is to reimburse a guaranty agency in an amount equal to the applicable coverage for losses upon notice and determination of such amounts subject to reduction based on the guaranty agency's claims rate, calculated in accordance with the Higher Education Act. For guaranty agencies with claims rates in the lowest category, the maximum reinsurance rate with respect to loans first disbursed between October 1, 1993 and October 1, 1998 is 98% (or 100% for certain loans or certain claims). For loans first disbursed on or after October 1, 1998, such maximum reinsurance rate 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 guaranty agencies shall be deemed to have a contractual right against the United States to receive reinsurance in accordance with its provisions. In addition, if a guaranty agency 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 guaranty agency capable of meeting such obligations or until a successor guaranty agency 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 guaranty agency's reserve fund assets are dedicated to the loan programs and may not be used for unauthorized purposes.

Prior to the effective date of the student loan provisions of the HCERA, the Secretary was authorized to pay the guaranty agency a loan processing and issuance fee based upon the total principal amount of loans guaranteed in each of the federal fiscal years beginning on or after October 1, 1998. For fiscal year 2010, the last year for which the loan processing and issuance fee was paid, the rate was 0.40%. Under the Higher Education Act, as amended by the HCERA, a guaranty agency continues to receive an account maintenance fee from the Secretary. Such fee is based upon the original principal amount of outstanding Federal Family Education Loans insured by the guaranty agency, and since October 1, 2007, has been 0.06%.

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**APPENDIX C**

**GLOSSARY OF CERTAIN DEFINED TERMS**

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## APPENDIX C

### GLOSSARY OF CERTAIN DEFINED TERMS

The following are some of the terms defined in the Authority's 2011-1 General Resolution and 2011-1 Series Resolution pursuant to which the 2011-1 Notes are issued. Where appropriate or necessary for a clearer indication of meaning for purposes of this Offering Memorandum, some of the following definitions have been slightly modified. For purposes of such definitions, unless the context otherwise requires:

(i) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, or other legal entities including public bodies, as well as natural persons.

(ii) The terms "hereby," "hereof," "hereto," "herein," "hereunder", and any similar terms, as used in the 2011-1 General Resolution or 2011-1 Series Resolution, refer to the applicable 2011-1 General Resolution or 2011-1 Series Resolution or sections or subsections of the applicable 2011-1 General Resolution or 2011-1 Series Resolution and the term "hereafter" means after the date of adoption of the 2011-1 General Resolution and 2011-1 Series Resolution.

Some of these terms are used in this Offering Memorandum and, unless the context in which such terms are herein used clearly indicates some other meaning, such terms used herein shall have the same meanings ascribed to them in the 2011-1 General Resolution or the 2011-1 Series Resolution, as appropriate.

"A-1 Notes" shall mean the Tranche of the Taxable Notes authorized and issued in the aggregate principal amount of \$98,000,000 2011-1 Series A-1 Student Loan Backed Notes.

"A-2 Notes" shall mean the Tranche of the Taxable Notes authorized and issued in the aggregate principal amount of \$127,000,000 2011-1 Series A-2 Student Loan Backed Notes.

"A-3 Notes" shall mean the Tranche of the Taxable Notes authorized and issued in the aggregate principal amount of \$220,000,000 2011-1 Series A-3 Student Loan Backed Notes.

"Accepted Servicing Procedures" shall mean with respect to any Financed Student Loan, servicing procedures (including collection procedures) that comply with applicable federal (including but not limited to the Higher Education Act), state and local law and that are in accordance with standards set by the Secretary and the accepted student loan servicing practices of prudent lending institutions that service student loans of the same type in the United States.

"Account or Accounts" shall mean one or more of the separate accounts that are established within Funds created pursuant to the 2011-1 General Resolution.

"Act" shall mean Chapter 1180 of the Session Laws of North Carolina of 1965, as amended, being Sections 116-201 to 116-209.55, inclusive, of the General Statutes of North Carolina, as existing at the date of adoption of the 2011-1 General Resolution, or as thereafter amended.

“Adjusted Pool Balance” for a given Distribution Date shall mean the sum of the Pool Balance as of the end of the most recent Collection Period, the Value of the Debt Service Reserve Fund and the Value of the Capitalized Interest Fund, after giving effect to any withdrawals from each of such Funds since the end of the last Collection Period.

“Administrator” shall mean the Foundation, the Authority or any other organization with which the Authority has entered into an administration agreement with respect to the Student Loan Finance Program and, in any case, so long as such party acts as administrator with respect to Financed Student Loans.

“Administrator Fees” shall mean the fees payable by the Authority to the Administrator to cover operation and administration of the Student Loan Finance Program. Such fees payable to the Administrator shall cover, but are not limited to, the Administrator’s reasonable and necessary expenses for operation and administration of the Student Loan Finance Program.

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

“Authorized Denominations” shall mean \$100,000 and available for purchase in multiples of \$1,000 above such amount.

“Authorized Newspaper” shall mean a newspaper of general circulation in the State.

“Authorized Officer” shall mean (i) in the case of the Authority, the Chairman, Executive Director, any Director or other officer designated by the Executive Director, and (ii) in the case of the Servicer or Administrator, the President and any other officer designated by the President.

“Available Funds” shall mean the sum of, to the extent not previously distributed: (a) any amount by which the Debt Service Reserve Fund exceeds the Debt Service Reserve Requirement, (b) any amount by which the Department Reserve Fund exceeds the Department Reserve Fund Requirement, (c) any amount by which the Capitalized Interest Fund exceeds the Step-down Schedule, (d) any amount by which the Operating Fund exceeds the Operating Fund Requirement, (e) all funds in the Collection Fund having been received by the Servicer with respect to the Financed Student Loans for the immediately preceding Collection Period, as certified by the Servicer to the Trustee by Electronic Means, and (f) all interest earned on Investment Obligations having been deposited into the Collection Fund during the immediately preceding Collection Period.

“Backup Servicer” shall mean Nelnet Servicing, LLC or any other organization with which the Authority has entered into the Backup Servicing Agreement with respect to the Student Loan Finance Program.

“Backup Servicing Agreement” shall mean an agreement that the Authority has with a Backup Servicer relating to the servicing of the Financed Student Loans after a Servicer Transfer Trigger.

“Beneficial Owner” shall mean, so long as the Notes are negotiated in the Book-Entry System, any Person who acquires a beneficial ownership interest in a Note held by the Securities Depository. If at any time the Notes are not held in the Book-Entry System, Beneficial Owner shall mean Noteholder.

“Book-Entry System” shall mean the system maintained by the Securities Depository described in the 2011-1 Series Resolution.

“Business Day” shall mean (i) for purposes of determining the LIBOR Rate, any day on which banks in New York, New York and London, England are open for the transaction of international business; and (ii) for all other purposes, any day other than a Saturday, Sunday, legal holiday or any other day on which banks located in New York, New York or the city in which the office of the Trustee designated in accordance with the 2011-1 General Resolution is located, are authorized or permitted by law or executive order to close.

“Cash Flow Certificate” shall mean a Certificate of an Authorized Officer of the Authority establishing that for the current and each year until all Notes are no longer Outstanding, earnings and other amounts received with respect to the Trust Estate in each such year are anticipated to be fully sufficient to pay when due principal of and interest on all Notes Outstanding, as well as Department Reserve Amounts and Operating Costs for each such year, which Certificate may rely upon data and computations made on behalf of the Authority.

“Capitalized Interest Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

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

“Clearstream” shall mean Clearstream International.

“Collection Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

“Collection Period” shall mean any three-month period ending on the last day of March, June, September or December except that the first Collection Period shall begin on the Issue Date and end on June 30, 2011.

“Continuing Disclosure Certificate” shall mean the certificate executed by the Authority on the Issue Date which sets forth the obligations of the Authority on providing certain information to the Beneficial Owners while the Notes are Outstanding.

“Costs of Issuance” shall mean the costs of issuing the Notes.

“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 as note counsel on student loan backed note transactions as may be selected by the Authority.

“Custodian” shall mean the Servicer or any other organization with which the Authority has entered into the Custodian Agreement with respect to the Student Loan Finance Program and, in any case, so long as such party acts as custodian with respect to Financed Student Loans.

“Custodian Agreement” shall mean any agreement between the Authority and the Custodian relating to the custody or possession of any of the Financed Student Loans.

“Debt Service Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

“Debt Service Reserve Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

“Debt Service Reserve Requirement” shall mean, as of any particular date of calculation, the greater of (a) 0.25% of the Pool Balance, as such Pool Balance shall be certified by the Administrator using Electronic Means to the Trustee, or (b) 0.10% of the Initial Pool Balance. The Debt Service Reserve Requirement may be composed of cash or Investment Obligations or any combination of the two as the Authority may determine.

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

“Department Reserve Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

“Department Reserve Fund Amount” shall mean amounts on deposit for (a) payments due and payable to the U.S. Department of Education related to the Financed Student Loans, (b) any other payment due and payable to a Guaranty Agency relating to its guaranty of Financed Student Loans or (c) any other payment due to the Servicer, the Eligible Lender or another entity or trust estate, if amounts due under the 2011-1 General Resolution to the U.S. Department of Education or a Guaranty Agency with respect to Financed Student Loans were paid by the Servicer, the Eligible Lender or such other entity or trust estate, pursuant to a joint sharing agreement, an intercreditor agreement or otherwise.

“Department Reserve Fund Requirement” shall mean as of any date, an amount equal to the Department Reserve Fund Amount of the Authority for the current quarter and such additional amount as the Authority deems appropriate as shall be certified by Electronic Means to the Trustee; provided, in no event shall the Department Reserve Fund Requirement exceed the limitation set forth in the 2011-1 General Resolution.

“Distribution Date” shall mean July 25, 2011 and the 25<sup>th</sup> day of each October, January, April and July thereafter, or the next Business Day if such day is not a Business Day.

“Electronic Means” shall mean telecopy, facsimile transmissions, email transmissions or other similar electronic means of communication capable of producing a written record, including a telephonic communication confirmed by any other method set forth in this definition.

“Eligible Institution” shall mean any educational institution that is an eligible institution as described in the Higher Education Act and also so described in the Act.

“Eligible Lender” shall mean the Servicer and all other entities that are eligible lenders as described in the Higher Education Act (including but not limited to “eligible lender trustees”) that have in force a contract with a Guaranty Agency providing for loan guarantees to be issued by such Guaranty Agency to such entity, all in compliance with the Higher Education Act and the Act.

“Ending Balance Factor” shall mean, for any given day, the number calculated by dividing the unpaid principal balance of a Tranche of the Outstanding 2011-1 Series Notes (after any payments of principal are made) by the original principal balance of such Tranche of the 2011-1 Series Notes and rounding the result to nine decimal places.

“Escheat Fund” shall mean the fund created by the General Statutes of North Carolina.

“Euroclear” shall mean Euroclear System.

“Event of Default” shall have the meaning specified in the 2011-1 General Resolution.

“Event of Insolvency” shall mean the occurrence of one or more of the following events:

(a) the issuance, under the laws of any state or under the laws of the United States of America, of an order of rehabilitation, liquidation or dissolution of the Authority or the Servicer, as applicable;

(b) the commencement by or against the Authority or the Servicer, as applicable, of a case or other proceeding seeking liquidation, reorganization or other relief with respect to the Authority or the Servicer, as applicable, for their respective debts under any bankruptcy, insolvency or other similar state or federal law now or hereafter in effect, including, without limitation, the appointment of a trustee, receiver, liquidator, custodian or other similar official for the Authority or the Servicer, as applicable, or any substantial part of its respective property;

(c) the making by the Authority or the Servicer, as applicable, of an assignment for the benefit of creditors;

(d) the inability or failure of the Authority or the Servicer, as applicable, to generally pay its respective debts as they become due or any admission by the Authority or the Servicer, as applicable, in writing of its inability to pay its respective debts as they become due;

(e) the declaration of a moratorium with respect to the payment of the debts of the Authority or the Servicer, as applicable; or

(f) the initiation by the Authority or the Servicer, as applicable, of any action in furtherance of or to authorize any of the foregoing.

“Federal Reimbursement Contract” shall mean any agreement between a Guaranty Agency and the Secretary providing for the payment by the Secretary of amounts authorized to be paid pursuant to the Higher Education Act, including (but not necessarily limited to) partial reimbursement of amounts paid or payable upon defaulted Financed Student Loans and other student loans guaranteed or insured by the Guaranty Agency and Interest Subsidy Payments to holders of qualifying student loans guaranteed by the Guaranty Agency.

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

“Financed” when used with respect to Student Loans, shall mean Student Loans financed with proceeds from or credited to the Program Fund, but, in any event, shall not include Student Loans released as security under the 2011-1 General Resolution.

“Fiscal Year” shall mean each annual period that begins on July 1 in any calendar year and ends on June 30 in the following calendar year or other period if modified by the Authority.

“Fitch” shall mean Fitch Ratings, its successors and assigns.

“Foundation” shall mean College Foundation, Inc., a private, nonprofit 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 Finance Program and Student Loan Insurance Program, and its successors and assigns.

“Fund” or “Funds” shall mean one or more of the special trust funds that are created by the 2011-1 General Resolution.

“Guaranty Agency” shall mean the Authority acting in its capacity as a state guaranty agency under the Higher Education Act or other authorized guaranty agency under the Higher Education Act.

“Guaranty Agency Event of Default” shall mean an event which causes a Guaranty Agency to not pay claims on Financed Student Loans.

“Guaranty Agreements” shall mean the blanket guarantee or other guarantee agreements by or from any Guaranty Agency to the Eligible Lender for the purpose of guaranteeing Financed Student Loans, and any amendment of any of the foregoing entered into in accordance with the provisions thereof or hereof.

“Higher Education Act” shall mean the United States Higher Education Act of 1965 including any regulations thereto, as amended, or any successor legislation or regulation pursuant to which programs are established for the direct federal insurance of student loans, reinsurance of loans (including Student Loans) insured by a Guaranty Agency, and other purposes.

“Initial LIBOR Indexed Rate” shall mean, with respect to each Tranche of 2011-1 Notes, the rate equal to the applicable LIBOR rate calculated in accordance with the procedures described in the Offering Memorandum under the heading “THE 2011-1 NOTES- Interest Payments” plus the applicable Spread Factor.

“Initial Period” means the period beginning on the Issue Date and ending on the day before the first Distribution Date for the respective 2011-1 Series Notes.

“Initial Pool Balance” shall mean \$470,506,529 which is the Pool Balance as of January 31, 2011, of the Student Loans to become Financed on the Issue Date.

“Interest Account” shall mean the account so designated within the Debt Service Fund that is established by the 2011-1 General Resolution.

“Interest Period” shall mean the Initial Period and thereafter the period commencing on a Distribution Date and ending on the day prior to the next Distribution Date.

“Interest Rate Determination Date” shall mean the second Business Day immediately preceding each Distribution Date.

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

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

(a) direct obligations of, or obligations on which the timely payment of the principal and interest components are unconditionally and fully guaranteed by, the United States of America;

(b) overnight repurchase agreements and overnight reverse repurchase agreements at least 101% collateralized by securities described in clause (a) of this definition and with a counterparty, including the Trustee and any of its affiliates, that has senior debt rated “Aa2” or higher by Moody’s, “AA” or higher by S&P and “AA-” or higher by Fitch, and if commercial paper is outstanding, commercial paper which is rated “A-1” by S&P, “P1” by Moody’s and “F1+” by Fitch, or a counterparty approved in writing by the Rating Agencies;

(c) investments in a money market fund (i) collateralized by securities issued by the United States of America or its agencies, or repurchase agreements collateralized fully by U.S. Treasury and government agency securities and (ii) rated at least “AAAm” or “AAAm-G” by S&P or “Aaa” by Moody’s, and, if rated by Fitch, “AAA/V1+” by Fitch, including funds for which the Trustee or an affiliate thereof acts as an investment advisor or provides other similar services for a fee;

(d) senior bonds, debentures, notes, discount notes, short-term obligations or other evidences of indebtedness issued or guaranteed by any of the following agencies: Federal Farm Credit Banks, Federal Home Loan Mortgage Corporation; the Export-Import Bank of the United States; the Federal National Mortgage Association; the Farmers Home Administration; Federal Home Loan Banks; or any agency or instrumentality of the United States of America which shall be established for the purposes of acquiring the obligations of any of the foregoing or otherwise providing financing therefore; provided such obligation is an obligation of or guaranteed by the United States government and is rated “AAA” by S&P and “AAA” by Fitch

“Issue Date” shall mean March 8, 2011.

“LIBOR Indexed Rate” shall mean, with respect to each Tranche, the interest rate established by the Trustee on each Interest Rate Determination Date and equal to the LIBOR Rate plus the applicable Spread Factor.

“LIBOR Rate” shall mean, for any given day, the rate per annum fixed by the British Bankers’ Association at 11:00 a.m., London time (the “BBA Libor Rate”), on such day relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a three month period. If such a day is not a business day in London, then the rate most recently fixed as the BBA Libor Rate for a three month period shall be used. Such rate may be available on the following Bloomberg screen: US0003M<Index>HP. If the rate is no longer available from Bloomberg or its successor, the rate for that day will be determined on the basis of rates at which deposits in U.S. dollars, having a three-month maturity and in a principal amount of not less than US\$1,000,000, are offered at approximately 11:00 a.m., London time, on that Interest Rate Determination Date, to prime banks in the London interbank market by the Reference Banks. The Trustee will request the principal London office of each Reference Bank to provide a quotation of its rate. If the Reference Banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the Reference Banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by the Trustee at approximately 11:00 a.m., New York City time, on that Interest Rate Determination Date, for loans in U.S. dollars to leading European banks having a three-month maturity and in a principal amount of not less than US\$1,000,000. If the banks selected as described above are not providing quotations, the LIBOR Rate in effect for the applicable Interest Period will be the LIBOR Rate in effect for the previous Interest Period.

“Majority of the Noteholders” shall mean the Noteholders of more than 50% in aggregate principal amount of the Notes Outstanding.

“Moody’s” shall mean Moody’s Investors Service, Inc., its successors and assigns.

“Nationally Recognized Rating Service” shall mean any of S&P, Moody’s and Fitch (or the successor to any) or other nationally recognized securities rating agency.

“1995 General Resolution” shall mean the resolution of the Authority entitled “A GENERAL RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF STATE EDUCATION ASSISTANCE AUTHORITY GUARANTEED STUDENT LOAN REVENUE BONDS AND OTHER MATTERS RELATING THERETO” adopted September 14, 1995, as amended.

“Note” or “Notes” shall mean the Notes authorized by the 2011-1 Series Resolution and issued under the 2011-1 General Resolution.

“Noteholder” shall mean the registered owner of a Note Outstanding, including the Securities Depository.

“Note Purchase Agreement” shall mean the agreement under which the 2011-1 Series Notes shall be sold to the underwriters.

“Operating Costs” shall mean all expenses of the Authority, the Administrator and the Servicer in carrying out and administering the Student Loan Finance Program under the 2011-1 General Resolution and shall include, without limiting the generality of the foregoing, Servicing Fees, salaries, acquisition 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, fees and expenses of the Fiduciaries in accordance with the 2011-1 General Resolution, any indemnity or reimbursement amounts payable by the Authority under any Transaction Document, Costs of Issuance not otherwise paid or provided for from the proceeds of Notes, 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 2011-1 General Resolution.

“Operating Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

“Operating Fund Requirement” shall mean as of any date, an amount equal to the Operating Costs for the current quarter and such additional amount as the Authority deems appropriate, but not more than four months of Operating Costs in total as limited pursuant to the 2011-1 General Resolution as shall be certified by Electronic Means to the Trustee.

“Outstanding” when used with reference to the Notes, shall mean, as of any date, all Notes theretofore or then being authenticated and delivered under the 2011-1 General Resolution except:

- (a) any Notes cancelled by the Trustee at or prior to such date;
- (b) Notes (or portions thereof) for the payment of which there shall be held in a segregated trust account under the 2011-1 General Resolution (whether at or prior to the Stated Maturity Date) cash, equal to the principal amount or Redemption Price thereof, with interest to the Stated Maturity Date or Distribution Date, as applicable; and



(c) Notes in lieu of or in substitution for which other Notes shall have been authenticated and delivered pursuant to the 2011-1 General Resolution.

“Participant,” “Direct Participant” or “Indirect Participant” shall mean a participant in the electronic, computerized book-entry system of transferring beneficial ownership interest in any of the 2011-1 Series Notes administered by the Securities Depository.

“Paying Agent” shall mean any bank with trust powers, trust company or other company or financial institution whether foreign or domestic so designated pursuant to the 2011-1 General Resolution, and its successor or successors hereafter appointed, as paying agent for the Notes.

“Perfected Interest” shall mean a security interest in personal property as to which all necessary steps to perfect the same under the Higher Education Act and the UCC, as applicable, have been taken.

“Person” shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, incorporated organization or government or any agency or political subdivision thereof.

“Pool Balance” shall mean for any date the aggregate Principal Balance of all Financed Student Loans on that date plus accrued interest that is expected to be capitalized as authorized under the Higher Education Act.

“Principal Account” shall mean the account so designated within the Debt Service Fund established by the 2011-1 General Resolution.

“Principal Balance” when used with respect to a Financed Student Loan, shall mean the unpaid principal amount thereof (including any unpaid interest thereon that has been capitalized as authorized under the Higher Education Act or the Student Loan Finance Program) as of a given date.

“Principal Distribution Amount” with respect to any Distribution Date, shall mean the amount, if any, by which (a) the aggregate principal amount of the Notes Outstanding as of the end of the most recent Collection Period exceeds (b) the Adjusted Pool Balance divided by 120%; but not less than the amount of any principal due if such Distribution Date is also a Stated Maturity Date or Notes have been duly called for redemption on such Distribution Date in accordance with the 2011-1 Series Resolution.

“Prior Bonds” shall mean collectively, all of the auction rate bonds issued and outstanding under the 1995 General Resolution and certain bonds outstanding under the 2008 SECU General Resolution.

“Program Fund” shall mean the Fund so designated that is created by the 2011-1 General Resolution.

“Rating Agency” or “Rating Agencies” shall mean any Nationally Recognized Rating Service to the extent any such rating service has been requested in writing by the Authority to issue a rating on one or more Series of Notes and such rating service has issued and continues to maintain a rating on such Notes at the time in question.

“Rating Agency Condition” shall mean, as of any date, a letter addressed to the Trustee or the Authority, or public notice from each Rating Agency other than S&P confirming that the action proposed to be taken by the Authority as described in such letter will not, in and of itself, result in a downgrade of such Rating Agency’s rating on any Notes Outstanding or cause such Rating Agency to suspend or withdraw its rating on any Notes Outstanding.

“Record Date” shall mean, with respect to any principal or interest to be paid on a Distribution Date, the Business Day prior to such Distribution Date.

“Recoveries of Principal” shall mean all amounts received in respect of payment of principal of Financed Student Loans, including Default Payments, scheduled, delinquent and advance payments, payouts or prepayments, and proceeds from the sale, assignment or other disposition of a Financed Student Loan.

“Redemption Price” shall mean the total of principal and accrued but unpaid interest on any Note redeemed on a Distribution Date.

“Reference Banks” shall mean, with respect to a determination of the LIBOR Rate for any Interest Period by the Trustee, the four largest United States banks by total consolidated assets, as listed by the Federal Reserve in its most current statistical release on its website with respect thereto, with an office in London.

“Registrar” shall mean the Paying Agent, and its successor or successors hereafter appointed, as registrar for the Notes.

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

“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.

“Securities Depository” shall mean any institution defined as such under the 2011-1 Series Resolution.

“Securities Depository” shall mean The Depository Trust Company and such other securities depository as the Authority may designate in an Authority Certificate delivered to the Trustee.

“Series” shall mean all of the Notes authenticated and delivered pursuant to the 2011-1 Series Resolution and designated therein as a Series of Notes, and any Notes thereafter authenticated and delivered in lieu of or in substitution for such Notes pursuant thereto and the 2011-1 General Resolution.

“Servicer” shall mean the Foundation and any other organization whose regular business includes the servicing of loans for post-secondary education with which the Authority has entered into a servicing agreement and, in any case, so long as such party acts as servicer of Financed Student Loans.

“Servicer Compliance Report” shall mean (i) any report generated by the U.S. Department of Education, Office of the Inspector General, specifically relating to a Servicer, and (ii) a third party review of a Servicer conducted under the provisions of the Statement on Auditing Standards No. 70, “Reports on the Processing of Transactions by Service Organizations” or an A-133 Higher Education Act annual compliance audit, as applicable, in either case, performed annually by a firm of independent public accountants.

“Servicer Transfer Trigger” shall mean one of the following events:

(a) the Servicer determines that it will no longer service any Financed Student Loans and provides written notice to the Backup Servicer and other parties as required under the Backup Servicing

Agreement and prompt written notice to the Trustee of the transfer of servicing pursuant to the Backup Servicing Agreement,

(b) a material weakness regarding the applicable Servicer has been identified in any Servicer Compliance Report related to that Servicer and such material weakness shall continue for a period of 30 days after the Administrator's or the Authority's receipt of such report identifying such material weakness and a Majority of the Noteholders has directed the Trustee and the Authority in writing to proceed with a transfer of servicing,

(c) the Servicer is in a material violation of its duties under the 2011-1 General Resolution (including but not limited to, those provided for in the 2011-1 General Resolution with respect to Accepted Servicing Procedures) or under the Higher Education Act and such material violation shall continue for a period of 30 days after such Servicer becomes aware of such material violation and a Majority of the Noteholders has directed the Trustee and the Authority in writing to proceed with a transfer of servicing, or

(d) an Event of Insolvency of the Servicer.

"Servicing Fees" shall mean the fees payable by the Authority to the Servicer to cover, *inter alia*, the Servicer's reasonable and necessary expenses in connection with servicing the Financed Student Loans, or if another entity besides the Foundation is acting as Servicer, the fees and expenses that the Authority is contractually bound to pay the Servicer for servicing the Financed Student Loans. Such Servicing Fees shall also include any fees payable to any Backup Servicer.

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

"S&P" shall mean Standard & Poor's Rating Services, a division of The McGraw Hill Companies, Inc., its successors and assigns.

"Spread Factor" shall mean with respect to the A-1 Notes 0.45% per annum; with respect to the A-2 Notes, 0.90% per annum; and with respect to the A-3 Notes, 0.90% per annum.

"State" shall mean the State of North Carolina.

"Stated Maturity Date" shall mean the dates on which the 2011-1 Series Notes mature (January 25, 2021 with respect to the A-1 Notes; January 26, 2026 with respect to the A-2 Notes; and October 25, 2041 with respect to the A-3 Notes).

"Statutory Loan Fund" shall mean the trust fund authorized and established by Section 116-209.3 of the Act.

"Statutory Sinking Fund" shall mean the trust fund authorized and established by Section 116-209.4 of the Act.

"Step-down Schedule" shall mean the following maximum balances for the Capitalized Interest Fund:

Date	Maximum Amount
January 15, 2012	\$1,500,000
July 15, 2012	\$500,000
July 15, 2013	\$0

“Student Loan” shall mean a student loan having the following characteristics:

- (a) such obligation constitutes an instrument, account or a general intangible as defined in the UCC as in effect in the jurisdiction that governs the perfection of the interests therein;
- (b) the borrower thereunder is an eligible borrower under the Higher Education Act;
- (c) such obligation represents advances of money made by an Eligible Lender to or on behalf of a student attending, enrolled or having been enrolled at an Eligible Institution, evidenced by one or more promissory notes;
- (d) such obligation is an obligation the payment of principal of and interest on which is guaranteed by a Guaranty Agency 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 a Guaranty Agency 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 Guaranty Agency and the Secretary to so guarantee and reinsure;
- (e) such obligation, together with the related note that evidences the Student Loan represents the genuine, legal, valid and binding payment obligation of the related borrower, enforceable by or on behalf of the holder thereof against such borrower in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, fraudulent conveyance and similar laws relating to creditors’ rights generally and subject to general principles of equity; and that has not been satisfied, subordinated or rescinded and no right of rescission, setoff, counterclaim or defense has been asserted or, to the Authority’s knowledge, overtly threatened in writing with respect to such Student Loan;
- (f) such obligation is originated or financed using funds from the Trust Estate not in excess of the Value thereof;
- (g) such obligation provides or, when the payment schedule with respect thereto is determined, will provide for payments on a periodic basis that fully amortize the Principal Balance thereof by its original stated maturity date, as such stated maturity date may be modified in accordance with any applicable deferral or forbearance periods granted in accordance with applicable laws or program requirements, including those of the Higher Education Act or any Guaranty Agreement;
- (h) such obligation is subject to a Perfected Interest;
- (i) such obligation is an obligation for which the granting of a security interest does not contravene or conflict with any law or regulation or require the consent or approval of, or notice to, any Person;
- (j) such obligation is the subject of a valid Guaranty Agreement with an eligible Guaranty Agency under the Higher Education Act and as to which a Guaranty Agency Event of Default has not occurred;
- (k) such obligation qualifies the holder thereof to receive guarantee payments equal to the highest amount authorized under the Higher Education Act of principal and interest from the Guaranty Agency and qualifies the Guaranty Agency to receive payments thereon from the Secretary pursuant to a Federal Reimbursement Contract;

(l) such obligation is an obligation with respect to which the Eligible Lender is not in default in any material respect in the performance of any of its covenants and agreements made in the applicable Guaranty Agreement and/or Federal Reimbursement Contract;

(m) such obligation is an obligation with respect to which all amounts due and payable to the Secretary or a Guaranty Agency, as the case may be, have been paid in full; and

(n) such obligation is an obligation the payment terms of which have not been altered or amended other than in accordance with the Higher Education Act and the interest rate of which is the highest rate allowed by the Higher Education Act except as may be permitted as borrower benefits under the Student Loan Finance Program, the 2011-1 General Resolution and the 2011-1 Series Resolution.

“Student Loan Finance Program” shall mean and include any acts or things done by the Authority or the Servicer pursuant to the Act and the 2011-1 General Resolution for the purpose of financing Student Loans available pursuant to the Act.

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

“Supplemental Resolution” shall mean any resolution supplemental to or amendatory of the 2011-1 General Resolution or the 2011-1 Series Resolution adopted by the Authority in accordance with the 2011-1 General Resolution.

“Taxable Notes” shall mean Notes designated as such in the 2011-1 Series Resolution whereby interest paid on such Notes is not intended to be excluded from gross income of the Beneficial Owner thereof for federal income tax purposes.

“Tranche” shall mean 2011-1 Series Notes having the same Stated Maturity Date and numerical or letter designation.

“Transaction Documents” shall mean the 2011-1 General Resolution, the 2011-1 Series Resolution, any Supplemental Resolution, any Notes, any Backup Servicing Agreement, any Custodian Agreement and any Guaranty Agreement.

“Trustee” shall mean The Bank of New York Mellon Trust Company, National Association and the successor or successors thereto and any other corporation which may at any time be substituted in its place pursuant to the 2011-1 General Resolution.

“Trust Estate” shall mean, together with any proceeds, all rights, title and interest of the Authority in the following: (a) the Financed Student Loans; (b) interest payments with respect to Financed Student Loans made by or on behalf of borrowers; (c) Recoveries of Principal; (d) any Special Allowance Payments; (e) all Interest Subsidy Payments; (f) any Backup Servicing Agreement, any Guaranty Agreement and any Custodian Agreement, (g) all moneys and securities from time to time held by the Trustee under the terms of the 2011-1 General Resolution in various Funds and Accounts (excluding moneys and securities held in the Department Reserve Fund); and (h) 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 2011-1 General Resolution.

“2008 SECU General Resolution” shall mean the resolution of the Authority entitled “A GENERAL RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF STATE

EDUCATION ASSISTANCE AUTHORITY STUDENT LOAN REVENUE PRIVATE PLACEMENT BONDS (SECU PROJECT) AND OTHER MATTERS RELATING THERETO)” effective June 30, 2008.

“2011-1 General Resolution” shall mean the resolution of the Authority entitled “A 2011-1 GENERAL RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF STATE EDUCATION ASSISTANCE AUTHORITY STUDENT LOAN BACKED NOTES, 2011-1 SERIES, AND OTHER MATTERS RELATING THERETO” effective March 2 2011.

“2011-1 Series Notes” shall mean the Taxable Notes of the Authority authorized and issued in the aggregate principal amount of \$445,000,000 pursuant to the 2011-1 Series Resolution and the 2011-1 General Resolution.

“2011-1 Series Resolution” shall mean “A 2011-1 SERIES RESOLUTION PROVIDING FOR THE ISSUANCE AND SALE OF NOT EXCEEDING FOUR HUNDRED FIFTY MILLION DOLLARS (\$450,000,000) STATE EDUCATION ASSISTANCE AUTHORITY STUDENT LOAN BACKED NOTES, 2011-1 SERIES; AND OTHER MATTERS RELATING THERETO” effective March 2, 2011 of the Authority authorizing the issuance of Notes in accordance with the terms and provisions hereof.

“UCC” shall mean the Uniform Commercial Code as in effect in the State, as amended.

“Value” on any calculation date when required under the 2011-1 General Resolution shall mean the value of the Trust Estate calculated by the Authority or its agent as to (a) and (b) below and by the Trustee as to (c) and (d), inclusive, below, as follows:

(a) with respect to any Financed Student Loan, the unpaid Principal Balance, accrued but unpaid interest, Interest Subsidy Payment or Special Allowance Payment that is required to be paid with respect to such Financed Student Loan and that is required pursuant to the 2011-1 General Resolution to be transferred to the Trustee, less the unguaranteed portion of Financed Student Loans in claims status;

(b) with respect to any funds of the Authority held under the 2011-1 General Resolution and credited to any Fund or Account except the Department Reserve Fund and the Operating Fund on deposit in any commercial bank or as to any banker’s acceptance or repurchase agreement or investment contract, the amount thereof plus accrued but unpaid interest;

(c) with respect to any Investment Obligations of an investment company, the bid price of the shares as reported by the investment company plus accrued but unpaid interest; and

(d) subject to the 2011-1 General Resolution, as to other investments, the fair market value based on accepted industry standards and from accepted industry providers such as Financial Times Interactive Data Corporation, or other provider selected by the Trustee.

**APPENDIX D**

**SUMMARY OF CERTAIN PROVISIONS  
OF THE 2011-1 GENERAL RESOLUTION**

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE 2011-1 GENERAL RESOLUTION

The 2011-1 General Resolution contains various covenants and security provisions, certain of which are summarized below. Reference should be made to the 2011-1 General Resolution for a full and complete statement of its provisions.

#### **Pledge of Trust Estate**

Under the 2011-1 General Resolution, there is pledged and assigned for the payment of the principal (or, if the Notes have been duly called for redemption, the Redemption Price) of and interest on Notes, in accordance with their terms and the provisions of the 2011-1 General Resolution and the 2011-1 Series Resolution, and all other payment obligations thereunder subject only to the provisions of the 2011-1 General Resolution permitting the application thereof for or to the purposes and on the terms and conditions set forth in the 2011-1 General Resolution, the Trust Estate to the Trustee for the benefit of the Trustee and the Noteholders. All of the obligations thereunder shall be payable solely from the Trust Estate.

The Trust Estate shall immediately be subject to the lien of the pledge of the 2011-1 General Resolution without any physical delivery thereof or further act, and the lien of said pledge shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Authority. The security interest granted in the 2011-1 General Resolution shall be perfected in the manner provided by the Higher Education Act and the UCC, as applicable.

It is expressly understood that, subject to the limitations set forth in the 2011-1 General Resolution, in the 2011-1 Series Resolution or any Supplemental Resolution, there shall be released from the lien of the pledge such Trust Estate assets as may be sold, disposed of or transferred by the Authority to the extent that such sale, disposition or transfer is authorized in the 2011-1 Series Resolution for the payment of Redemption Price on any Distribution Date as directed by a Certificate of an Authorized Officer of the Authority. The Trustee shall, upon receipt of a Certificate from such Authorized Officer and subject to the provisions of the 2011-1 General Resolution, the 2011-1 Series Resolution or any Supplemental Resolution, take all actions reasonably necessary to effect the release of any Trust Estate assets from the lien of the 2011-1 General Resolution as directed by such Certificate to permit the sale, disposition or transfer of such Trust Estate assets, but only as authorized in the 2011-1 Series Resolution for the payment of Redemption Price on any Distribution Date.

Subject to the limitations set forth in the preceding paragraph and elsewhere in the 2011-1 General Resolution, upon receipt of such Certificate of an Authorized Officer, the Trustee shall execute instruments provided by such Authorized Officer to release such Trust Estate assets from the lien of the 2011-1 General Resolution, or convey the Trustee's interest in the same, in a manner and under circumstances that are not inconsistent with the provisions of the 2011-1 General Resolution. No party relying upon an instrument executed by the Trustee as provided in the 2011-1 General Resolution shall be bound to ascertain the Trustee's authority, inquire into the satisfaction of any conditions precedent or see to the application of any moneys.

The Trustee shall, at such time as there are no Notes Outstanding and all amounts due and owing under the 2011-1 General Resolution have been paid, release any remaining portion of the Trust Estate from the lien of the 2011-1 General Resolution and release to the Authority or its assigns any funds then on deposit in the Funds and Accounts.

## **Funds and Accounts**

The Authority acknowledges the requirements of the Act that it establish the Statutory Loan Fund, Statutory Sinking Fund and Reserve Trust Fund. In order to enhance the marketability of its Notes the Authority establishes the following funds and accounts, as set forth below, to be maintained by the Trustee for the benefit of the Noteholders:

- (a) Program Fund
- (b) Collection Fund
- (c) Debt Service Fund
  - Interest Account
  - Principal Account
- (d) Capitalized Interest Fund
- (e) Operating Fund
- (f) Department Reserve Fund
- (g) Debt Service Reserve Fund

Each of the above Funds and Accounts, in addition to other Accounts from time to time established at the direction of the Authority, shall be held in a segregated trust account in the corporate trust division of the Trustee and maintained by the Trustee pursuant to the provisions of the 2011-1 General Resolution. The Program Fund, the Department Reserve Fund and the Operating Fund are declared to be within the Statutory Loan Fund. The Collection Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Capitalized Interest Fund are declared to be within the Statutory Sinking Fund. The Trust Estate shall be administered as a separate and distinct trust estate from the trust estates created under any of the Authority's other general resolutions or indentures and each Fund or Account created under the 2011-1 General Resolution and the assets therein shall be segregated from all other funds of the Authority.

The 2011-1 Series Resolution may provide for the establishment of separate Accounts within any Fund or separate subaccounts within any Account, into which moneys representing proceeds of the Notes, moneys set aside for the payment of the Notes, or moneys otherwise allocable to the Notes shall be deposited or credited. Notwithstanding the creation of such Accounts or subaccounts, moneys therein shall be available for any purpose for which other moneys in the Fund of which such Account is a part or the Account of which such subaccount is a part, as the case may be, are authorized to be applied or used.

### **Program Fund**

All Financed Student Loans shall be credited to the Program Fund.

The Trustee shall from time to time pay out, or permit the withdrawal of, moneys credited to the Program Fund, free and clear of any lien, pledge or assignment in trust created by the 2011-1 General Resolution, for the purpose of paying in the manner authorized by the 2011-1 General Resolution any Costs of Issuance for which provision is not otherwise made, upon receipt by said Trustee of a written requisition signed by an Authorized Officer of the Authority stating with respect to each payment to be made:

- (i) the item for which payment is to be made,
- (ii) the name of the person or party to whom the payment is to be made,
- (iii) the amount to be paid, and
- (iv) that the amount to be paid from such Fund pursuant to such requisition is a proper charge thereon.

Upon receipt of each such requisition properly drawn subject to the limitations in the 2011-1 Series Resolution, the Trustee shall deliver a check, draft or wire transfer drawn upon the Program Fund for the payment of each item. Upon receipt of a Certificate signed by an Authorized Officer of the Authority to the effect that all Costs of Issuance in respect of the Notes have been paid, the Trustee shall transfer in accordance with the directions contained in said Certificate, any moneys remaining in the Program Fund to the Collection Fund.

### **Collection Fund**

All moneys received by or on behalf of the Authority or the Servicer as assets of, or with respect to, the Trust Estate shall be deposited promptly, but no later than two Business Days from the receipt thereof, to the credit of the Collection Fund.

Not later than the 15<sup>th</sup> day of the month following the last day of each Collection Period, the Authority, or the Administrator, shall notify the Trustee by Electronic Means of the amount of the Pool Balance and the Debt Service Reserve Requirement as of the end of the immediately preceding Collection Period, as well as the Department Reserve Fund Requirement and the Operating Fund Requirement, each based on the most recent information available when such amounts are provided to the Trustee.

Not later than the 16<sup>th</sup> day of the month following the last day of each Collection Period (as well as any additional date for which the Authority directs the Trustee in a Certificate), using the Available Funds, the Trustee shall make deposits to the credit of the Funds and Accounts, together with such other payments as are set forth below, in the amounts and in order of priority as follows:

- First, to the Department Reserve Fund, an amount that, when added to the amount therein will equal the Department Reserve Fund Requirement as directed by the Authority by Electronic Means subject to the 2011-1 General Resolution.
- Second, to the Operating Fund, an amount that, when added to the amount therein will equal the Operating Fund Requirement as directed by the Authority by Electronic Means subject to the 2011-1 General Resolution.
- Third, to the Interest Account, an amount such that, when added to any amount on deposit in the Interest Account on the day of the calculation, would be equal to the interest due on all Outstanding Notes on the immediately succeeding Distribution Date as calculated by the Trustee.
- Fourth, to the Debt Service Reserve Fund, so much as may be required so that the amount therein shall equal the Debt Service Reserve Requirement.

- Fifth, to the Principal Account, the Principal Distribution Amount, for the payment of principal of the Notes as calculated by the Trustee.
- Sixth, to pay any indemnity or reimbursement amounts payable by the Authority under any Transaction Document including, without limitation, any such amounts payable to Fiduciaries in accordance with the 2011-1 General Resolution or other Operating Costs not previously paid. Such amounts shall not exceed \$150,000 in the aggregate per annum in the absence of an Event of Default. Such amounts, if any, shall be communicated to the Trustee by Electronic Means by the Authority.
- Seventh, to the Principal Account, any remaining funds available for the payment of principal of the Notes as calculated by the Trustee.

### **Debt Service Fund**

Moneys in the Interest Account shall be applied to pay interest when due on the Notes.

Unless directed otherwise in the 2011-1 Series Resolution, moneys in the Principal Account shall be applied to pay principal of the Notes or to pay the Redemption Price of the Notes to be redeemed on a Distribution Date.

### **Capitalized Interest Fund**

There shall be deposited into the Capitalized Interest Fund the amount, if any, set forth in the 2011-1 Series Resolution. To the extent there are insufficient moneys in the Funds and Accounts identified in the first three bullet points of “Collection Fund” above to make one or more of the transfers or payments required from the Funds and Accounts and amounts are on deposit in the Capitalized Interest Fund, the Trustee shall withdraw from the Capitalized Interest Fund, the lesser of an amount equal to such deficiency or the entire amount then on deposit in the Capitalized Interest Fund and to deposit such amount in such Fund or Account. All amounts on deposit in the Capitalized Interest Fund shall be transferred to the credit of the Collection Fund to the extent they exceed the amounts in the Step-down Schedule.

### **Operating Fund**

Moneys in the Operating Fund shall be applied as directed by the Authority to pay Operating Costs as required by the 2011-1 General Resolution, and the Authority authorizes the Servicer and the Administrator to bill separately the Servicing Fees and the Administrator Fees to the Trustee for payment from the Operating Fund. Such Operating Costs shall not be increased beyond the amounts detailed in the 2011-1 Series Resolution unless the Trustee shall first receive a Rating Agency Condition from Fitch and a Cash Flow Certificate. The Authority shall provide 30-day prior written notice to S&P of any increase in Operating Costs.

### **Department Reserve Fund**

Amounts in the Department Reserve Fund shall be applied as directed by the Authority to pay Department Reserve Fund Amounts as required by the 2011-1 General Resolution. Such amounts on deposit shall not exceed four months of Department Reserve Fund Amounts as determined by the Authority.

### **Debt Service Reserve Fund**

Amounts in the Debt Service Reserve Fund shall be applied for the payment of principal of and interest on the Notes if there would otherwise be a default in payment in accordance with the 2011-1 General Resolution.

### **Deposits in Funds and Accounts**

Accrued interest, if any, received upon the delivery of the Notes shall be deposited in the Interest Account of the Debt Service Fund.

There shall be deposited in the Debt Service Reserve Fund an amount sufficient, together with other available moneys of the Authority, to cause the amount on deposit in such Debt Service Reserve Fund, to at least equal the Debt Service Reserve Requirement immediately after issuance of the Notes.

The amount, if any, specified in the 2011-1 Series Resolution to be deposited in the Capitalized Interest Fund shall be deposited in such Fund.

The amount, if any, specified in the 2011-1 Series Resolution to be deposited in the Operating Fund shall be deposited in such Fund.

The amount, if any, specified in the 2011-1 Series Resolution to be deposited in the Department Reserve Fund shall be deposited in such Fund.

The amount, if any, specified in the 2011-1 Series Resolution to be deposited in the Collection Fund shall be deposited in such Fund.

There shall be deposited in the Program Fund an amount sufficient to pay Costs of Issuance for the Notes as are not otherwise provided for.

There shall be deposited with an escrow agent and/or the trustee of any other trust estate amounts set forth in the 2011-1 Series Resolution the proceeds of which will be used for refunding bonds, notes or other obligations of the Authority.

### **Application of Certain Funds and Accounts**

Notwithstanding any provision of the 2011-1 General Resolution pertaining to the application of moneys in any Fund or Account (except the Department Reserve Fund), amounts deposited in all Funds and Accounts shall be used for the payment of principal of and interest on the Notes if there would otherwise be a default in payment as a result of a shortfall in the Debt Service Fund. The order of Funds and Accounts from which moneys are to be transferred in the event that moneys in the Interest Account or Principal Account are insufficient to avoid a default in payment of principal of or interest on the Notes shall be as follows: the Capitalized Interest Fund, the Collection Fund, the Principal Account or Interest Account of the Debt Service Fund (as applicable), the Program Fund, the Debt Service Reserve Fund and then the Operating Fund.

### **Limitation on Certain Funds and Accounts**

If at any time the balance in the Funds and Accounts under the 2011-1 General Resolution (excluding the Operating Fund and the Department Reserve Fund) shall be sufficient to retire all Notes

Outstanding and subject to retirement, such balance may be applied at the direction of the Authority to retire all Notes Outstanding.

### **Investments of Funds and Accounts**

Subject to any limitations set forth in the 2011-1 Series Resolution, moneys in each Fund and Account shall be invested at the written direction of an Authorized Officer of the Authority or the Administrator consistent with the required uses of such moneys, in Investment Obligations. 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, however, is part of the Trust Estate and shall be deposited, as earned, to the Collection Fund.

In computing the amount in any Fund or Account held by the Trustee under the provisions of the 2011-1 General Resolution, Investment Obligations purchased as an investment of moneys therein shall be valued at par if such Investment Obligations will mature within 30 days at their par amount; otherwise such obligations shall be valued at their then market value. Valuation made on any particular date shall include the amount of interest then earned or accrued to such date on any Investment Obligations. Accrued income for all Funds and Accounts shall be deemed to be attributable to the Collection Fund as provided in the 2011-1 General Resolution. All such valuations shall be made by the Trustee on at least a quarterly basis and shall be provided to the Authority in an account statement unless otherwise provided in the 2011-1 Series Resolution.

Except as otherwise provided in the 2011-1 General Resolution, the Trustee shall sell at a price approved by an Authorized Officer of the Authority or the Administrator or present for redemption, any Investment Obligation so purchased as an investment at such time as it shall be directed in writing by an Authorized Officer of the Authority or the Administrator for the purpose of providing moneys to meet any payment or transfer from any Fund or Account held by it.

It shall not be necessary for any Paying Agent to give security for the deposit of any moneys that it held in trust for the payment of principal of, Redemption Price or interest on any Notes.

### **Conditions Precedent to Authentication and Delivery of Notes**

Except as provided by the 2011-1 General Resolution, the Trustee shall authenticate and deliver the Notes to or upon the order of the Authority only upon receipt by the Trustee of:

- a copy of the 2011-1 Series Resolution, certified by an Authorized Officer of the Authority;
- a Certificate of an Authorized Officer of the Authority as to the delivery of the Notes and describing the Notes to be authenticated and delivered, designating the purchaser or purchasers to whom the Notes are to be delivered, and stating the purchase price of the Notes;
- an approving Counsel's Opinion;
- evidence satisfactory to the Trustee that funds will be on deposit on the Issue Date in the Debt Service Reserve Fund in an amount equal to the initial Debt Service Reserve Requirement as established in the 2011-1 Series Resolution;

- a Certificate of an Authorized Officer of the Authority stating that the Authority is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the 2011-1 General Resolution or the 2011-1 Series Resolution, and a Certificate of an Authorized Officer of the Servicer and the Administrator stating that it is not in default with respect to the provisions of the 2011-1 General Resolution or the 2011-1 Series Resolution;
- a Certificate of an Authorized Officer of the Authority;
- a Cash Flow Certificate;
- the amount of the proceeds of the Notes to be deposited in any Fund or Account as set forth in the 2011-1 General Resolution including any amounts set forth in the 2011-1 Series Resolution and such further documents, moneys and securities as are required by the 2011-1 General Resolution or by the 2011-1 Series Resolution;
- evidence of ratings, if any, by each Rating Agency of the Notes;
- UCC-1 financing statements prepared by the Authority and evidence that appropriate arrangements have been made by the Authority for the filing of such UCC-1 financing statements; and
- a Certificate of an Authorized Officer of the Servicer, as to the consent of the Servicer, to the issuance of Notes under the 2011-1 Series Resolution.

### **No Additional Notes**

The Notes issued under the 2011-1 Series Resolution are the only Notes that may be issued and secured by the 2011-1 General Resolution.

### **Redemption**

Notes subject to redemption prior to the Stated Maturity Date pursuant to the 2011-1 Series Resolution shall be redeemable, upon notice as provided in the 2011-1 General Resolution, at such times, at such Redemption Prices and upon such terms as may be specified in the 2011-1 Series Resolution.

In the case of any redemption of Notes otherwise than as provided in the 2011-1 General Resolution, the Authority shall give written notice to the Trustee of its election or direction so to redeem, of the Distribution Date, of the Series, of the principal amounts of the Notes of each Stated Maturity Date to be redeemed (which Distribution Date may be determined in its sole discretion, subject to any limitations with respect thereto contained in the 2011-1 General Resolution and the 2011-1 Series Resolution) and of any moneys to be applied to the payment of the Redemption Price. Such notice shall be given in accordance with the 2011-1 Series Resolution or such shorter period as shall be acceptable to the Trustee in its sole discretion. In the event notice of redemption shall have been given as provided in the 2011-1 General Resolution, the Trustee shall, prior to the Distribution Date, pay to the appropriate Paying Agent or Paying Agents from the Debt Service Fund, as provided in the 2011-1 General Resolution, an amount in cash that, in addition to other moneys, if any, available therefor held by such Paying Agent or Paying Agents, will be sufficient to redeem on the Distribution Date at the Redemption Price thereof, all of the Notes to be redeemed.

Whenever by the terms of the 2011-1 General Resolution, the Trustee is required to redeem Notes otherwise than at the election or direction of the Authority, and subject to and in accordance with the terms of the 2011-1 General Resolution, the Trustee shall select the Distribution Dates of the Notes to be redeemed, give the notice of redemption and pay the Redemption Price to the appropriate Paying Agents from the Debt Service Fund, as provided in the 2011-1 General Resolution.

The 2011-1 Series Resolution shall provide for the manner of redemption or payment in the event of redemption or payment of less than all the Outstanding Notes.

Unless otherwise directed in the 2011-1 Series Resolution, when the Trustee shall receive notice from the Authority of its election or direction to redeem Notes pursuant to the 2011-1 General Resolution, and when redemption of Notes is required by the 2011-1 General Resolution pursuant to the 2011-1 General Resolution, the Trustee shall give notice in the name of the Authority, of the redemption of such Notes, which notice shall specify the Series and maturities of the Notes to be redeemed, the Distribution Date and the place or places where amounts due upon such redemption will be payable and, if less than all of the Notes of any like Series and Stated Maturity Date are to be redeemed, the letters and numbers or other distinguishing marks of such Notes so to be redeemed and, in the case of Notes to be redeemed in part only, such notice shall also specify the respective portions of the principal amount thereof to be redeemed. Such notice shall further state that on such date there shall become due and payable upon each Note to be redeemed the Redemption Price thereof, or the Redemption Price of the specified portions of the principal thereof in the case of Notes to be redeemed in part only, together with interest accrued to the Distribution Date, and that from and after such Distribution Date interest on such Notes or portion of such Notes redeemed shall cease to accrue and be payable. To the extent that funds have not been allocated for such purpose by the time the notice is sent, such notice shall however state that it is a conditional notice and that the redemption shall be cancelled if moneys are not available on the Distribution Date as provided in the 2011-1 General Resolution. The Trustee shall mail a copy of such notice in accordance with the 2011-1 Series Resolution.

Notice having been given in the manner provided in the 2011-1 General Resolution, the Notes or portions thereof so called for redemption shall become due and payable on the Distribution Date so designated at the Redemption Price, and, upon presentation and surrender thereof at the office specified in such notice, together with, a written instrument of transfer duly executed by the Noteholder or his duly authorized attorney, such Notes, or portion thereof shall be paid at the Redemption Price. If there shall be drawn for redemption less than all of a Note, the Authority shall execute and the Trustee shall authenticate and the Paying Agent deliver, upon the surrender of such Note, without charge to the Noteholder thereof, for the unredeemed balance of the principal amount of the Note so surrendered at the option of the Noteholder thereof, Notes of like interest rate and Stated Maturity Date and in any Authorized Denominations. If, on the Distribution Date, moneys for the redemption of all the Notes (or portions thereof) to be redeemed, together with interest to the Distribution Date, shall be held by any Paying Agent so as to be available therefor on said date and if notice of redemption shall have been given as aforesaid, then, from and after the Distribution Date interest on the Notes or portions thereof so called for redemption shall cease to accrue and become payable. If said moneys shall not be so available on the Distribution Date, the redemption shall be cancelled and such Notes or portions thereof shall continue to bear interest until paid at the same rate as they would have borne had they not been called for redemption.

### **Issuance and Delivery of Notes**

After their authorization by the 2011-1 Series Resolution, the Notes may be executed by or on behalf of the Authority in accordance with the 2011-1 General Resolution and delivered to the Trustee for authentication, and upon compliance by the Authority with the special requirements, if any, set forth in



the 2011-1 Series Resolution and with the requirements of the 2011-1 General Resolution, the Trustee shall thereupon authenticate and deliver the Notes to or upon the order of the Authority.

## **Certain Covenants**

### **Enforcement of Financed Student Loans**

The Authority and the Administrator shall diligently, directly or through agents, enforce, defend, preserve, protect and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Financed Student Loans and all agreements and guarantee and insurance contracts in connection therewith, including the prompt payment of all principal and interest payments and all other amounts due with respect thereto. Except as permitted or required by applicable law or as set forth in the 2011-1 General Resolution, neither the Authority nor the Servicer shall release the obligations of any student borrower under any Financed Student Loan and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Noteholders under or with respect to each Financed Student Loan and all agreements in connection therewith. Neither the Authority nor the Servicer shall consent or agree to or permit any amendment or modification of any Financed Student Loan or agreement in connection therewith that will in any manner materially adversely affect the rights or security of the Noteholders under the 2011-1 General Resolution or the 2011-1 Series Resolution. Subject to any limitation set forth in the 2011-1 Series Resolution, or any Supplemental Resolution, consistent with the provisions of the 2011-1 General Resolution, the Authority or the Servicer may settle a default or cure a delinquency on any Financed Student Loan on such terms as shall be determined by the Authority or the Administrator to be prudent.

### **Guaranty Agreements and Enforcement**

The Authority shall maintain or cause to be maintained in effect all Guaranty Agreements, diligently and promptly enforce or cause to be enforced its rights thereunder and take or cause to be taken, all commercially reasonable steps, actions and proceedings necessary or appropriate for the enforcement of all material terms, covenants and conditions of each Financed Student Loan, including the prompt payment of all principal and interest payments and all other amounts due with respect to such Financed Student Loans, including all Interest Subsidy Payments and Special Allowance Payments, guaranty payments, except for such deferments and forbearance permitted under the Higher Education Act, as applicable. The Authority shall not permit any Financed Student Loan to be guaranteed by any guaranty agency or entity other than a Guaranty Agency.

### **Student Loan Finance Program**

The Authority shall not finance with proceeds of Notes any Student Loan unless such financing is authorized by the 2011-1 Series Resolution, the proceeds of which are to be so applied. All Financed Student Loans pledged under the 2011-1 General Resolution shall be held by the Administrator or an Eligible Lender on its behalf.

The Authority also covenants that it will not and will not permit the Eligible Lender, to sell, transfer or otherwise dispose of Financed Student Loans unless, (i) the Authority has been directed to make any such sale pursuant to the 2011-1 General Resolution, or (ii) such sale, transfer or disposition is authorized in the 2011-1 Series Resolution for the payment of Redemption Price on any Distribution Date.

If necessary or desirable for administrative purposes or, with respect to any particular Student Loan, if requested by the borrower, the Authority may substitute Student Loans for existing Financed

Student Loans if the substituted Student Loans have characteristics (including aggregate Principal Balance, borrower status, remaining term and lender yield) that are substantially similar to the characteristics of the substituted Financed Student Loans, and the Trustee shall have received a Certificate of the Authority certifying that such substitution will not materially adversely affect the Authority's ability to pay principal and interest on the Notes and all other payment obligations under the 2011-1 General Resolution and the 2011-1 Series Resolution. In addition, the Authority may substitute one or more Student Loans (of approximately the same aggregate Principal Balance, borrower status, remaining term and lender yield as the substituted Financed Student Loans) for existing Financed Student Loans in order to (i) evidence the additional obligations of borrowers whose Student Loans have been previously Financed under the 2011-1 General Resolution; or (ii) substitute Student Loans that are eligible, for Financed Student Loans that are no longer eligible, to be Financed Student Loans under the 2011-1 General Resolution. Any such Student Loans so transferred to the 2011-1 General Resolution to become Financed Student Loans in exchange for Student Loans previously financed or credited under the 2011-1 General Resolution to the Program Fund shall, for all purposes of the 2011-1 General Resolution, be credited to the Program Fund. No such substitution shall be permitted if the Value of such Student Loans in such substitution, combined with the Value of all prior transfers, exceeds 10% of the aggregate Value of the Trust Estate on the Issue Date. Each Rating Agency shall be provided notice of such substitution by the Authority and the Authority shall provide a report summarizing the change in the characteristics of the Financed Student Loans.

The Authority shall be permitted to fund subsequent disbursements on or prior to September 1, 2011 on Financed Student Loans in accordance with the Higher Education Act. Such funds shall be withdrawn from the Collection Fund and may not exceed \$100,000 in the aggregate for all such Financed Student Loans.

#### **Status as Eligible Lender and Administrator Requirement**

All Financed Student Loans shall be held by an Eligible Lender. The Authority shall cause the Eligible Lender to maintain its status as an "eligible lender" under the Higher Education Act. To the extent that the Foundation no longer qualifies or will no longer serve as Eligible Lender, the Authority shall appoint another entity as an Eligible Lender.

To the extent that the Foundation no longer qualifies or will no longer serve as Administrator, the Authority shall either serve in such capacity or appoint another entity as Administrator.

#### **Servicing**

From the date of the 2011-1 General Resolution until all of the obligations of the Authority under the 2011-1 General Resolution and under the other Transaction Documents shall be paid in full, the Authority or its Servicer shall service, administer and make collections with respect to the Financed Student Loans in accordance in all material respects with Accepted Servicing Procedures. The Authority shall send notice to the Rating Agencies of any change in Servicer.

#### **Backup Servicer**

The Authority covenants to maintain a Backup Servicing Agreement. Any and all Financed Student Loans serviced by a Servicer are to be transferred for servicing by the Backup Servicer promptly upon the occurrence of a Servicer Transfer Trigger with respect to that Servicer in accordance with the requirements contained in the Backup Servicing Agreement.

### **Accounts and Reports**

The Authority or the Administrator shall keep proper books and accounts in which complete and accurate entries shall be made of all transactions relating to the Student Loan Finance Program, and all Funds and Accounts established by the 2011-1 General Resolution, which shall at all reasonable times be subject to the inspection of the Trustee and the Beneficial Owners of an aggregate of not less than 25% in principal amount of the Notes then Outstanding or their representatives duly authorized in writing.

Within 90 days from the end of the fiscal year of the applicable Servicer, the Authority shall cause each Servicer to provide its annual audited financial statements to the Authority and the Trustee and to post such annual audited financial statements on the website of the Servicer or the website of the Authority or otherwise make available to any Beneficial Owners or their representatives duly authorized in writing.

The Authority will comply with and carry out or cause to be carried out all of the provisions of the Continuing Disclosure Certificate.

### **Personnel and Servicing of Student Loan Finance Program**

The Authority or Administrator shall at all times cause to be appointed, retained and utilized competent and qualified personnel for the purpose of carrying out the Student Loan Finance Program and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons so employed shall be qualified for their respective positions. Independent contractor companies may be engaged to perform any such duties upon notice to the Trustee and the Rating Agencies. However, no such notice is required if the Authority or Eligible Lender engages temporary personnel or consultants. The Authority shall maintain a Servicer and an Eligible Lender for the purpose of carrying out the Student Loan Finance Program and the Student Loan Insurance Program.

### **Waiver of Laws**

The Authority and the Administrator shall not at any time 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 that may affect the covenants and agreements contained in the 2011-1 General Resolution, Series 2011-1 Series Resolution or any Supplemental Resolution, or the Notes, and all benefit or advantage of any such law or laws is expressly waived by the Authority and the Administrator.

### **Perfection and Priority of Security Interest**

The Authority shall take all steps necessary, and shall cause the Administrator, the Servicer and the Trustee to take all steps necessary and appropriate, to maintain the perfection and priority of the Trustee's security interest in the Trust Estate.

### **Borrower Benefits**

The Authority covenants not to increase borrower benefits on Financed Student Loans or increase the funding with Trust Estate assets of borrower benefits, origination fees or other fees.

## **No Forced Redemption**

The Authority covenants not to deposit other assets to the Trust Estate except as it may elect to do so in its sole discretion to avoid an Event of Default or in conjunction with an optional redemption as permitted under the 2011-1 Series Resolution.

## **Events of Default**

Each of the following events is declared to be an “Event of Default”:

- (a) default by the Authority in the payment of any installment of interest on the Notes, when due;
- (b) default by the Authority in the payment of any principal of the Notes when due on a Stated Maturity Date or of any Redemption Price;
- (c) default in the performance or observance of any covenants or agreements contained in the 2011-1 General Resolution, the 2011-1 Series Resolution or any Supplemental Resolution or the Notes, and the continuation of such default for a period of 45 days (except for the covenant set forth in “Backup Servicer” above in which case 5 days shall be applicable) after written notice thereof by the Trustee or a Majority of the Noteholders; or
- (d) an Event of Insolvency for the Authority shall have occurred.

The Trustee shall give immediate notice of any Event of Default under Section 801(a), (b) or (c) to each Rating Agency.

## **Remedies**

Upon the happening and continuance of any Event of Default and subject to the provisions of the 2011-1 General Resolution, the Trustee shall, upon the written direction as set forth in the 2011-1 General Resolution, proceed to protect and enforce the rights of the Noteholders by such of the following remedies as directed:

- (a) enforce, by mandamus or other suit, action or proceedings at law or in equity, all rights of the Noteholders, including the right to require the Authority, the Servicer or the Administrator to receive and collect or cause to be received and collected the Trust Estate assets, adequate to carry out the covenants and agreements as to, and pledge of, such Trust Estate, and to require the Authority, the Servicer or the Administrator to carry out or cause to be carried out any of its other covenants or agreements with Noteholders and to perform or cause to be performed duties under the Act;
- (b) bring suit upon the Notes;
- (c) require the Authority and/or the Eligible Lender, by action or suit to account as if it were the trustee of an express trust for the Noteholders;
- (d) enjoin by action or suit any acts or things that may be unlawful or in violation of the rights of the Noteholders;

(e) declare all Notes due and payable in accordance with the 2011-1 General Resolution;

(f) in the event that all Notes are declared due and payable, to sell all Financed Student Loans, Investment Obligations and all other Trust Estate assets to the extent necessary to effect their payment; provided that in the case of any such sale the Trustee shall be entitled to hire such entity as the Authority may select to undertake such sale, and the expenses of any agent or other entity hired in connection with such sale shall be paid or reimbursed in accordance with the 2011-1 General Resolution; provided further that any such sale of Financed Student Loans shall be subject to the 2011-1 General Resolution; and

(g) take any other action as may be directed pursuant to the 2011-1 General Resolution.

Upon the happening of any Event of Default, the Trustee shall have the discretion to do any of the following:

(a) sell Financed Student Loans and Trust Estate assets to the extent necessary if it is determined prior to such sale that the proceeds of such sale are sufficient to pay Noteholders the entire amount of principal of, interest and other payments due; or;

(b) to the extent funds in the Trust Estate are available therefor, continue to pay principal of and interest on the Notes and other amounts payable under the 2011-1 General Resolution in accordance with the terms of the 2011-1 General Resolution.

Except in the case of an Event of Insolvency of the Authority, if the Trustee shall determine to sell the Financed Student Loans under the 2011-1 General Resolution as a remedy upon an Event of Default as set forth in the 2011-1 General Resolution, the Authority or its designee is granted the right to purchase such Financed Student Loans for an amount equal to the greater of (a) the Value of the Financed Student Loans as of the cutoff date or the date of sale or (b) an amount sufficient to pay all principal of and interest owing to Noteholders and all accrued fees and expenses owed under the 2011-1 General Resolution and payable out of the Trust Estate; provided, such date of sale shall be considered a date of acceleration and the Authority shall pay on such date of sale all amounts due and owing under the 2011-1 General Resolution as a result of such Event of Default and acceleration of the Outstanding Notes. The Authority shall have 20 Business Days from its receipt of written notice from the Trustee that an Event of Default has occurred under the 2011-1 General Resolution and that the period during which the Authority may exercise its option to purchase the Financed Student Loans has commenced, to enter into a written agreement to exercise its option to purchase such Financed Student Loans. Such written agreement shall specify a purchase date occurring no more than 25 Business Days after the Trustee gives written notice to the Authority that an Event of Default has occurred under the 2011-1 General Resolution.

#### **Priority of Payments After Default**

Notwithstanding any other provision in the 2011-1 General Resolution to the contrary, upon the happening and continuance of any Event of Default, the funds held by the Trustee and Paying Agents and any other moneys received or collected pursuant to the 2011-1 General Resolution shall be applied after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the fees of and (a) expenses, liabilities and advances incurred or made by the Trustee including, but not limited to, the fees and expenses of its counsel and other agents, and (b) any other amounts owed to the Trustee under the 2011-1 General Resolution or under any of the Transaction Documents, as follows:

Unless the principal of all of the Notes shall have become or have been declared due and payable:

First: For the payment of Operating Costs and Department Reserve Fund Amounts; and

Second: To the payment to the persons entitled thereto of all installments of interest then due on such Notes in the order of such installments and, if the amount available shall not be sufficient to pay in full all interest then due on the Notes, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Third: To the payment to the persons entitled thereto of the unpaid principal of any such Notes, and, if the amounts available shall not be sufficient to pay in full all the Notes, then to the payment thereof ratably, without any discrimination or preference.

If the principal of all of the Notes shall have become or have been declared due and payable:

First: For the payment of Operating Costs and Department Reserve Fund Amounts; and

Second: To the persons entitled thereto for the payment of principal and interest, without any preference or priority, ratably according to the aggregate amounts due, to the persons entitled thereto.

### **Accelerated Maturity**

If an Event of Default shall have occurred and be continuing, the Trustee may declare (but only for Events of Default set forth in the 2011-1 General Resolution), or upon the written direction of a Majority of the Noteholders, shall declare, the principal of all Notes then Outstanding, and the interest thereon, if not previously due, immediately due and payable, anything in the Notes or the 2011-1 General Resolution to the contrary notwithstanding. Such Noteholders may annul such declaration and its consequences. The Trustee shall also provide written notice to each Rating Agency of any acceleration under the 2011-1 General Resolution.

### **Direction to Trustee**

Upon the happening of any Event of Default a Majority of the Noteholders shall have the right by an instrument or instruments in writing delivered to the Trustee to direct and control the Trustee as to the method of taking any and all proceedings for any sale of any or all of the Trust Estate, or for the appointment of a receiver, if permitted by law, and may at any time cause any proceedings authorized by the terms of the 2011-1 General Resolution to be so taken or to be discontinued or delayed; provided, however, that such Noteholders shall not be entitled to cause the Trustee to take any proceedings that in the Trustee's opinion would be unjustly prejudicial to non-assenting Noteholders, but the Trustee shall be entitled to assume that the action requested by the Majority of Noteholders will not be prejudicial to any non-assenting Noteholders unless the Noteholders of at least 51% of the collective aggregate principal amount of the non-assenting Noteholders, in writing, certify to the Trustee how they will be prejudiced.

### **Modification and Amendment without Consent**

Notwithstanding any other provisions of the 2011-1 General Resolution, the Authority may, without the consent of Noteholders, adopt at any time or from time to time Supplemental Resolutions for any one or more of the following purposes, and any such Supplemental Resolution shall become effective

in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority and a copy of such filing shall also be sent by the Authority to each Rating Agency.

- to add additional covenants and agreements of the Authority for the purpose of further securing the payment of the Notes, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Authority contained in the 2011-1 General Resolution or the 2011-1 Series Resolution;
- to surrender any right, power or privilege reserved to or conferred upon the Authority by the terms of the 2011-1 General Resolution, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Authority contained in the 2011-1 General Resolution, and, in the opinion of the Trustee, who shall be entitled to rely exclusively upon a Counsel's Opinion (with such costs to be paid by the Authority as an Operating Cost), shall not materially and adversely affect the interest of the Noteholders;
- to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the 2011-1 General Resolution;
- to cure any ambiguity or defect or inconsistent provision in the 2011-1 General Resolution or to insert such provisions clarifying matters or questions arising under the 2011-1 General Resolution as are necessary or desirable; or
- to take any action that may be required to maintain compliance with the Higher Education Act or other law applicable to the Student Loan Finance Program.

### **Supplemental Resolutions Effective with Consent of Noteholders**

The provisions of the 2011-1 General Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of the Noteholders in accordance with and subject to the provisions of the 2011-1 General Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer of the Authority. A copy of such filing shall also be sent by the Authority to each Rating Agency.

### **Modifications by Unanimous Action**

Notwithstanding anything contained in the 2011-1 General Resolution, the rights and obligations of the Authority and of the Noteholders and the terms and provisions of the Notes or of the 2011-1 General Resolution may be modified or amended in any respect upon the adoption of a Supplemental Resolution by the Authority and the consent of all of the Noteholders, such consent to be given as provided in the 2011-1 General Resolution; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto in addition to the consent of the Authority and of the Noteholders.

### **Resignation of Trustee**

The Trustee may at any time resign and be discharged of the duties and obligations created by the 2011-1 General Resolution by giving not less than 60 days written notice to the Authority, the Rating Agencies and publishing notice thereof, specifying the date when such resignation shall take effect, once

in an Authorized Newspaper, and such resignation shall take effect only upon the appointment, acceptance and qualification of a successor trustee, which successor trustee must be an Eligible Lender.

### **Removal of Trustee**

The Trustee shall be removed by the Authority if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee, the Rating Agencies and the Authority, and signed by a Majority of the Noteholders or their attorneys-in-fact duly authorized, excluding any Notes held by or for the account of the Authority. The Authority may remove the Trustee at any time, except during the existence of an Event of Default as defined in the 2011-1 General Resolution, for such cause as shall be determined in the sole discretion of the Authority by filing with the Trustee an instrument signed by an Authorized Officer of the Authority. Such removal shall take effect only upon the appointment, acceptance and qualification of a successor Trustee, which successor Trustee must be an Eligible Lender.

### **Appointment of Successor Trustee**

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, the Authority covenants and agrees that it will thereupon appoint a successor Trustee which successor Trustee must be an Eligible Lender. The Authority shall publish notice of any such appointment made by it in an Authorized Newspaper, such publication to be made once within 20 days after such appointment. Such appointment shall take effect only upon the qualification of such successor Trustee.

If in a proper case no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of the 2011-1 General Resolution within 45 days after the Trustee shall have given to the Authority written notice, as provided in the 2011-1 General Resolution, or after a vacancy in the office of the Trustee shall have occurred by reason of its inability to act, the Trustee or any Noteholder, at the expense of the Authority, may apply to any court of competent jurisdiction to appoint a successor Trustee. Said court may thereupon, after such notice, if any, as such court may deem proper and prescribe, appoint a successor Trustee.

Any Trustee appointed under the provisions of the 2011-1 General Resolution in succession to the Trustee shall be a trust company or bank having the powers of a trust company within or outside of the State, having a capital and surplus aggregating at least \$100,000,000 if there be such a trust company or bank, willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it by the 2011-1 General Resolution. The Authority shall notify each Rating Agency of the appointment of a successor Trustee (which shall include appointment of a successor Paying Agent and Registrar).

### **Transfer of Rights and Property to Successor Trustee**

Any successor Trustee appointed under the 2011-1 General Resolution shall execute, acknowledge and deliver to its predecessor Trustee, and also to the Authority, an instrument accepting such appointment, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become fully vested with all moneys, estates, properties, rights, powers, duties and obligations of such predecessor Trustee, with like effect as if originally named as Trustee; but the Trustee ceasing to act shall nevertheless, on the written request of the Authority, or of the successor Trustee, execute, acknowledge and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor



Trustee all the right, title and interest of the predecessor Trustee in and to any property held by it under the 2011-1 General Resolution, and shall pay over, assign and deliver to the successor Trustee any money or other property subject to the Trusts and conditions set forth in the 2011-1 General Resolution. Should any deed, conveyance or instrument in writing from the Authority be required by such successor Trustee for more fully and certainly vesting in and confirming to such successor Trustee any such estates, rights, powers and duties, any and all such deeds, conveyances and instruments in writing shall, on request, and so far as may be authorized by law, be executed, acknowledged and delivered by the Authority. Any such successor Trustee shall promptly notify the Paying Agents of its appointment as Trustee.

### **Parties in Interest**

Nothing in the 2011-1 General Resolution, the 2011-1 Series Resolution or in any Supplemental Resolution adopted pursuant to the provisions of the 2011-1 General Resolution, expressed or implied, is intended to or shall be construed to confer upon or to give to any person or party other than the Authority, the Servicer, the Administrator, the Trustee, the Paying Agents and the Noteholders any rights, remedies or claims under or by reason of the 2011-1 General Resolution or the 2011-1 Series Resolution or any covenants, condition or stipulation thereof; and all covenants, stipulations, promises and agreements in the 2011-1 General Resolution, the 2011-1 Series Resolution and any Supplemental Resolution contained by or on behalf of the Authority shall be for the sole and exclusive benefit of the Authority, the Servicer, the Administrator, the Trustee, the Paying Agents and the Noteholders.

### **No Recourse Under Resolution or on Notes**

All covenants, stipulations, promises, agreements and obligations of the Authority, the Servicer or the Administrator contained in the 2011-1 General Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Authority, the Servicer or the Administrator and not of any director, trustee, member, officer or employee of the Authority, the Servicer or the Administrator in his individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Notes or for any claim based thereon or on the 2011-1 General Resolution against any director, trustee, member, officer or employee of the Authority, the Servicer or the Administrator or any natural person executing the Notes. Such payments of principal or Redemption Price of or interest on the Notes or claim based thereon or all other payment obligations under the 2011-1 General Resolution shall be payable solely from the Trust Estate created under the 2011-1 General Resolution and shall not be a general obligation of the Authority, the Servicer or the Administrator.

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**APPENDIX E**

**BOOK-ENTRY SYSTEM**

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## BOOK ENTRY SYSTEM

*The information in this section concerning DTC, Clearstream and Euroclear and the Book-Entry System has been obtained from DTC, Clearstream, and Euroclear. None of the Authority or the Foundation and their counsel, the Underwriters and their counsel, or Note Counsel take any responsibility for the accuracy thereof.*

### General

Investors acquiring beneficial ownership interests in the 2011-1 Notes issued in book-entry form may hold their 2011-1 Notes in the United States through DTC (as defined under the caption “Depository Institutions” below) or in Europe through Clearstream or Euroclear (each as defined under the caption “Depository Institutions” below) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

Principal and interest payments on the 2011-1 Notes are to be made to Cede & Co. DTC’s practice is to credit direct participant’s accounts upon receipt of funds and corresponding detail information from the Authority on the payable date in accordance with their respective holdings shown on DTC’s records. Payments by participants to beneficial owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and shall be the responsibility of the participant and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. is the responsibility of the Authority or the Trustee. Disbursement of such payments to direct participants shall be the responsibility of DTC, and disbursement of such payments to the beneficial owners shall be the responsibility of direct and indirect participants. Under a book-entry format, holders of the 2011-1 Notes may experience a delay in receipt of payments, since payments will be forwarded by the Trustee to Cede & Co., which will forward the payments to its participants who will then forward them to indirect participants or holders of the 2011-1 Notes.

Redemption notices shall be sent to DTC. If less than all of a series of the 2011-1 Notes are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each direct participant in such series to be redeemed.

DTC has advised that it will take any action permitted to be taken by a holder of 2011-1 Notes under the 2011-1 General Resolution and the 2011-1 Series Resolution (collectively, the “Resolution”) only at the direction of one or more participants to whose accounts with DTC the 2011-1 Notes are credited. Clearstream and Euroclear will take any action permitted to be taken by a holder of 2011-1 Notes under the Resolution on behalf of a participant only in accordance with their relevant rules and procedures and subject to the ability of the relevant depository to effect these actions on its behalf through DTC.

Neither DTC nor Cede & Co. will consent or vote with respect to the 2011-1 Notes. Under its usual procedures, DTC mails an omnibus proxy to the Authority, or the Trustee, as appropriate, as soon as possible after the record date. The omnibus proxy assigns Cede & Co.’s consenting or voting rights to those direct participants to whose accounts the 2011-1 Notes are credited on the record date.

None of the Authority, the Trustee, or the Underwriters will have any responsibility or obligation to any DTC participants, Clearstream participants or Euroclear participants or the persons for whom they act as nominees with respect to the accuracy of any records maintained by DTC, Clearstream, or Euroclear or any participant, the payment by DTC, Clearstream, or Euroclear or any participant of any amount due to any beneficial owner in respect of the principal amount or interest on the 2011-1 Notes, the delivery by any DTC participant, Clearstream participant or Euroclear participant of any notice to any beneficial owner which is required or permitted under the terms of the Resolution to be given to holders of 2011-1 Notes or any other action taken by DTC.

In certain circumstances, the Authority may discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, note forms are to be printed and delivered. DTC may discontinue providing its services as securities depository with respect to the 2011-1 Notes of any series at any time by giving reasonable notice to the Authority or the Trustee. In the event that a successor securities depository is not obtained, note forms are required to be printed and delivered.

### **Form, Denomination and Trading**

The 2011-1 Notes will be issued in minimum denominations and additional increments as set forth herein, and may be held and transferred, and will be offered and sold, in principal balances of not less than their applicable minimum denomination set forth herein.

Interests in the 2011-1 Notes denominated in U.S. Dollars will be represented by a global bond certificate held through DTC (each, a “U.S. Global Bond Certificate”). On or about the Issue Date, the Authority will deposit a U.S. Global Bond Certificate for each series of 2011-1 Notes with the applicable DTC custodian registered in the name of Cede & Co., as nominee of DTC. At all times the U.S. Global Bond Certificates will represent the outstanding principal balance, in the aggregate, of the related series of 2011-1 Notes. At all times, with respect to each series of 2011-1 Notes, there will be only one U.S. Global Bond Certificate.

DTC will record electronically the outstanding principal balance of each series of 2011-1 Notes represented by a U.S. Global Bond Certificate held within its system. DTC will hold interests in a U.S. Global Bond Certificate on behalf of its account holders through customers’ securities accounts in DTC’s name on the books of its depository. Clearstream and Euroclear will hold omnibus positions on behalf of their participants through customers’ securities accounts in Clearstream’s and Euroclear’s name on the books of its respective depository which in turn will hold positions in customers’ securities accounts in such depository’s name on the books of DTC. Citibank N.A. will act as depository for Clearstream and JP Morgan Chase will act as depository for Euroclear. Except as described below, no person acquiring a book-entry bond will be entitled to receive a physical certificate representing the 2011-1 Notes. Unless and until definitive certificates are issued, it is anticipated that the only holder of 2011-1 Notes will be Cede & Co., as nominee of DTC.

Interests in the U.S. Global Bond Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC, Euroclear, and Clearstream as applicable, and their respective direct and indirect participants. Transfers between participants will occur in accordance with DTC Rules. Transfers between Clearstream participants and Euroclear participants will occur in accordance with their respective rules and operating procedures.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream 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. Clearstream participants and Euroclear participants may not deliver instructions to the depositories.

Because of time-zone differences, credits of securities received in Clearstream 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 DTC settlement date. Such credits or any transactions in such securities settled during such processing will be reported to the relevant Euroclear or Clearstream participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream participant or Euroclear participant to a participant will be received with value on DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Although DTC, Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the 2011-1 Notes among participants of DTC, Clearstream, and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time.

### **Identification Numbers and Payments to the 2011-1 Notes**

The Authority will apply to DTC for acceptance in its book-entry settlement systems of each series of 2011-1 Notes denominated in U.S. Dollars. Each series of 2011-1 Notes will have the CUSIP numbers, ISINs, and European Common Codes, as applicable, set forth herein. Payments of principal, interest and any other amounts payable under each U.S. Global Bond Certificate will be made to or to the order of the relevant clearing system's nominee as the registered holder of such U.S. Global Bond Certificate.

Because of time zone differences, payments to holders of 2011-1 Notes that hold their positions through a European clearing system will be made on the business day following the applicable payment date, in accordance with customary practices of the European clearing systems. No payment delay to holders of 2011-1 Notes holding U.S. Global Bond Certificates clearing through DTC will occur on any payment date, unless, as set forth above, those holders of 2011-1 Notes interests are held indirectly through participants in European clearing systems.

### **Depository Institutions**

The Depository Trust Company, or DTC, is a limited-purpose trust company organized under the laws of the State of New York, a "clearing corporation" within the meaning of the Uniform Commercial Code and a "clearing agency" registered under Section 17A of the Securities Exchange Act. DTC was created to hold securities for its participating organizations and to facilitate the clearance and settlement of securities transactions between those participants through electronic book-entries, thereby eliminating the need for physical movement of certificates. Participants include securities brokers and dealers, banks, trust companies and clearing corporations, including Euroclear and Clearstream. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a participant, either directly or indirectly. Some direct participants and/or their representatives, own part of the Depository Trust Company Corporation, the parent of DTC.

In accordance with its normal procedures, DTC is expected to record the positions held by each of its participants in securities issued in book-entry form, whether held for its own account or as nominee for another person. In general, beneficial ownership of book-entry certificates will be subject to the rules, regulations and procedures governing DTC and its participants as in effect from time to time.

Purchases of the securities under the DTC system must be made by or through direct participants, which receive a credit for the securities on DTC records. The ownership interest of each actual purchaser of each series of securities, or beneficial owner, is in turn to be recorded on the direct and indirect participants' records. Beneficial owners shall not receive written confirmation from DTC of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the securities are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners shall not receive certificates representing their ownership interests in the 2011-1 Notes, except in the event that use of the book-entry system for the series of any 2011-1 Notes is discontinued.

To facilitate subsequent transfers, all 2011-1 Notes deposited by participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of such 2011-1 Notes 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 2011-1 Notes; DTC's records reflect only the identity of the direct participants to whose accounts such 2011-1 Notes are credited, which may or may not be the beneficial owners. The participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Clearstream Banking, société anonyme, Luxembourg, ("Clearstream"), has advised that it is incorporated under the laws of the Grand Duchy of Luxembourg as a professional depository. Clearstream holds securities for its participating organizations and facilitates the clearance and settlement of securities transactions between Clearstream participants through electronic book-entry changes in accounts of Clearstream participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a professional depository, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (the "CSSF"). Clearstream participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream participant, either directly or indirectly.

Euroclear has advised that it was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear provides various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./NV (the "Euroclear operator"), under contract with Euroclear Clearance System plc., a United Kingdom corporation (the "Cooperative"). All operations are



conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator, not the Cooperative. The Cooperative establishes policy for Euroclear on behalf of Euroclear participants. Euroclear participants include banks, central banks, securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear operator has advised that it is licensed by the Belgian Banking and Finance Commission to carry out banking activities on a global basis. As a Belgian Bank, it is regulated by the Belgian Banking Commission.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear (the “Terms and Conditions”) and the related Operating Procedures of the Euroclear System and applicable Belgian law. The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to securities held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream participants or Euroclear participants in accordance with the relevant system’s rules and procedures, to the extent received by its depository. Those distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear operator, as the case may be, will take any other action permitted to be taken by a holder of 2011-1 Notes under the Resolution on behalf of a Clearstream 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.

NEITHER THE AUTHORITY, THE TRUSTEE, NOR THE UNDERWRITERS WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (A) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, (B) THE PAYMENT BY DTC OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT, REDEMPTION PRICE OF OR INTEREST ON THE 2011-1 NOTES, (C) THE DELIVERY BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO THE REGISTERED OWNER, (D) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE 2011-1 NOTES, OR (E) ANY OTHER ACTION TAKEN BY DTC AS THE REGISTERED OWNER OF THE 2011-1 NOTES.

In reading this Offering Memorandum, it should be understood that while the 2011-1 Notes are in the Book-Entry System, references in other sections of this Offering Memorandum to holder, beneficial owner or Noteholder should be read to include the Beneficial Owners of the 2011-1 Notes, but (a) all rights of ownership must be exercised through DTC and the Book-Entry System and (b) notices that are to be given to registered owners by the Authority or the Trustee will be given only to DTC.

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**APPENDIX F**

**GLOBAL CLEARANCE, SETTLEMENT  
AND TAX DOCUMENTATION PROCEDURES**

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## **GLOBAL CLEARANCE, SETTLEMENT, AND TAX DOCUMENTATION PROCEDURES**

Except in some limited circumstances, the 2011-1 Notes offered herein will be available only in book-entry form as “Global Securities.” Investors in the Global Securities may hold such Global Securities through DTC or, if applicable, Clearstream or Euroclear. The Global Securities will be tradable as home market instruments in both the European and U.S. domestic markets. Initial settlement and all secondary trades will settle in same-day funds.

Secondary market trading between investors holding Global Securities through Clearstream and Euroclear will be conducted in the ordinary way in accordance with their normal rules and operating procedures and in accordance with conventional eurobond practice.

Secondary market trading between investors holding Global Securities through DTC will be conducted according to the rules and procedures applicable to U.S. corporate debt obligations.

Secondary, cross-market trading between Clearstream or Euroclear and DTC participants holding securities will be effected on a delivery-against-payment basis through the respective depositaries of Clearstream and Euroclear (in such capacity) and as DTC participants.

Non-U.S. holders (as described below) of Global Securities will exempt from U.S. withholding taxes, provided that the holders meet certain requirements and deliver appropriate U.S. tax documents to the securities clearing organizations or their participants.

### **Initial Settlement**

All U.S. dollar denominated Global Securities will be held in book-entry form by DTC in the name of Cede & Co. as nominee of DTC. Investors’ interests in the U.S. dollar-denominated Global Securities will be represented through financial institutions acting on their behalf as direct and indirect participants in DTC. As a result, Clearstream and Euroclear will hold positions in U.S. Dollar denominated Global Securities on behalf of their participants through their respective depositaries, which in turn will hold positions in accounts as DTC participants.

Investors electing to hold their Global Securities through DTC will follow the settlement practices applicable to U.S. corporate debt obligations. Investor securities custody accounts will be credited with their holdings against payment in same-day funds on the settlement date.

Investors electing to hold their Global Securities through Clearstream or Euroclear accounts will follow the settlement procedures applicable to conventional eurobonds, except that there will be no temporary global security and no “lock-up” or restricted period. Global Securities will be credited to the securities custody accounts on the settlement date against payment in same-day funds.

### **Secondary Market Trading**

Since the purchaser determines the place of delivery, it is important to establish at the time of the trade where both the purchaser’s and seller’s accounts are located to ensure that settlement can be made on the desired value date.

*Trading between DTC participants.* Secondary market trading between DTC participants will be settled using the procedures applicable to U.S. corporate debt obligations in same-day funds.

*Trading between Clearstream and/or Euroclear participants.* Secondary market trading between Clearstream participants and/or Euroclear participants will be settled using the procedures applicable to conventional eurobonds in same-day funds.

*Trading between DTC seller and Clearstream or Euroclear purchaser.* When Global Securities are to be transferred from the account of a DTC participant to the account of a Clearstream participant or a Euroclear participant, the purchaser will send instructions to Clearstream or Euroclear through a Clearstream participant or Euroclear participant at least one business day prior to settlement. Clearstream or Euroclear will instruct the applicable depository to receive the Global Securities against payment. Payment will include interest accrued on the Global Securities from and including the last coupon payment date to and excluding the settlement date. Payment will then be made by the respective depository to a DTC participant's account against delivery of the Global Securities.

*Securities.* After settlement has been completed, the Global Securities will be credited to the applicable clearing system and by the clearing system, in accordance with its usual procedures, to the Clearstream or Euroclear participant's account. The Global Securities credit will appear the next day (European time) and the cash debit will be back-valued to, and the interest on the Global Securities will accrue from, the value date (which would be the preceding day when settlement occurred in New York.) If settlement is not completed on the intended value date (i.e., the trade fails), the Clearstream or Euroclear cash debit will be valued instead as of the actual settlement date.

Clearstream participants and Euroclear participants will need to make available to the respective clearing systems the funds necessary to process same-day funds settlement. The most direct means of doing so is to preposition funds for settlement, either from cash on hand or existing lines of credit, as they would for any settlement occurring within Clearstream or Euroclear. Under this approach, they may take on credit exposure to Clearstream or Euroclear until the Global Securities are credited to their accounts one day later.

As an alternative, if Clearstream or Euroclear has extended a line of credit to them, Clearstream participants or Euroclear participants can elect not to preposition funds and allow that credit line to be drawn upon the finance settlement. Under this procedure, Clearstream participants or Euroclear participants purchasing Global Securities would incur overdraft charges for one day, assuming they cleared the overdraft when the Global Securities are credited to their accounts. However, interest on the Global Securities would accrue from the value date. Therefore, in many cases the investment income on the Global Securities earned during that one-day period may substantially reduce or offset the amount of such overdraft charges, although this result will depend on each Clearstream participant's or Euroclear participant's particular cost of funds.

Since the settlement is taking place during New York business hours, DTC participants can employ their usual procedures for sending Global Securities to the respective European depository for the benefit of Clearstream participants or Euroclear participants. The sale proceeds will be available to DTC seller on the settlement date. Thus, to DTC participants a cross-market transaction will settle no differently than a trade between two DTC participants.

*Trading between Clearstream or Euroclear seller and DTC purchaser.* Due to time zone differences in their favor, Clearstream participants and Euroclear participants may employ their customary procedures for transactions in which Global Securities are to be transferred to the respective clearing system, through the respective depository, to a Depository Trust Company participant. The seller will send instructions to Clearstream or Euroclear through a Clearstream participant or Euroclear participant at least one business day prior to settlement. In these cases Clearstream or Euroclear will instruct the depository, as appropriate, to deliver the Global Securities to the DTC participant's account

against payment. Payment will include interest accrued on the Global Securities from and including the last coupon payment to and excluding the settlement date, on the basis of the actual number of days in such accrual period and a year assumed to consist of 360 days. For transactions settling on the 31st of the month, payment will include interest accrued to and excluding the first day of the following month. The payment will then be reflected in the account of the Clearstream participant or Euroclear participant the following day, and receipt of the cash proceeds in the Clearstream participant's or Euroclear participant's account would be back-valued to the value date (which would be the preceding day, when settlement occurred in New York). Should the Clearstream participant or Euroclear participant have a line of credit with its respective clearing system and elect to be in debt in anticipation of receipt of the sale proceeds in its account, the back-valuation will extinguish any overdraft incurred over that one-day period. If settlement is not completed on the intended value date (i.e., the trade fails), receipt of the cash proceeds in the Clearstream Participant's or Euroclear Participant's account would instead be valued as of the actual settlement date.

Finally, day traders that use Clearstream or Euroclear and that purchase Global Securities from DTC participants for delivery to Clearstream participants or Euroclear participants should note that these trades will automatically fail on the sale side unless affirmative action is taken. At least three techniques should be readily available to eliminate this potential problem:

(1) borrowing through Clearstream or Euroclear for one day (until the purchase side of the day trade is reflected in their Clearstream or Euroclear accounts) in accordance with the clearing system's customary procedures;

(2) borrowing the Global Securities in the U.S. from a DTC participant no later than one day prior to settlement, which would give the Global Securities sufficient time to be reflected in their Clearstream or Euroclear accounts in order to settle the sale side of the trade; or

(3) staggering the value dates for the buy and sell sides of the trade so that the value date for the purchase from the DTC participant is at least one day prior to the value date for the sale to the Clearstream participant or Euroclear participant.

### **Certain U.S. Federal Income Tax Documentation Requirements**

A holder of Global Securities may be subject to U.S. withholding tax (currently at 30%), or U.S. backup withholding tax (currently at 28%), as appropriate, on payments of interest, including original issue discount, on registered debt issued by U.S. persons, unless (i) each clearing system, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business in the chain of intermediaries between the beneficial owner and the U.S. entity required to withhold tax complies with applicable certification requirements, and (ii) that holder takes one of the following steps to obtain an exemption or reduced tax rate:

*Exemption for non-U.S. person—Form W-8BEN.* Non-U.S. persons that are beneficial owners can obtain a complete exemption from the withholding tax. To obtain this exemption, they are generally required to file a signed Form W-8BEN (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding).

If the information shown on Form W-8BEN changes, a new Form W-8BEN must be filed within 30 days of the change.

*Exemption for non-U.S. persons with effectively connected income—Form W-8ECI.* A non-U.S. person, including a non-U.S. corporation or partnership, for which the income is effectively connected with its conduct of a trade or business in the United States, can obtain an exemption from the withholding tax by filing Form W-8ECI (Certificate of Foreign Person's Claim That Income Is Effectively Connected With the Conduct of a Trade or Business in the United States).

*Exemption or reduced rate for non-U.S. persons resident in treaty countries— Form W-8BEN.* Non-U.S. persons that are beneficial owners residing in a country that has a tax treaty with the United States can obtain an exemption or reduced tax rate, depending on the treaty terms, by filing Form W-8BEN.

*Exemption for U.S. persons—Form W-9.* U.S. persons can obtain a complete exemption from the withholding tax by filing Form W-9 (Request for Taxpayer Identification Number and Certification certifying that they are not subject to U.S. backup withholding tax).

*U.S. Federal Income Tax Reporting Procedure.* The Global Security holder or his agent files by submitting the appropriate form to the person through which he holds. This is the clearing agency, in the case of persons holding directly on the books of the clearing agency. Form W-8BEN, provided without a taxpayer identification number ("TIN") and Form W-8ECI are generally effective from the date the form is signed to the last day of the third succeeding calendar year. Form W-8BEN provided with a TIN will generally be effective until a change in circumstances makes any information on the form incorrect.

For these purposes, a U.S. person is: (i) a citizen or individual resident of the United States; (ii) a corporation or partnership, including an entity treated as such, organized in or under the laws of the United States or any state thereof or the District of Columbia; (iii) an estate the income of which is includible in gross income for U.S. federal income tax purposes, regardless of its source; or (iv) a trust whose administration is subject to the primary supervision of a U.S. court and which has one or more U.S. persons who have the authority to control all substantial decisions of the trust.

To the extent provided in Treasury regulations, some trusts in existence on August 20, 1996, and treated as U.S. persons before that date, that elect to continue to be treated as U.S. persons, will be U.S. persons and not foreign persons.

This discussion does not deal with all aspects of U.S. federal income tax withholding that may be relevant to foreign holders of the Global Securities. Investors are advised to consult their own tax advisors for specific tax advice concerning their holding and disposing of the Global Securities.



**APPENDIX G**

**PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES, AND EXPECTED  
MATURITIES OF THE 2011-1 NOTES AND PERCENTAGES OF ORIGINAL  
PRINCIPAL OF THE 2011-1 NOTES REMAINING AT CERTAIN QUARTERLY  
DISTRIBUTION DATES**

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**PREPAYMENTS, EXTENSIONS, WEIGHTED AVERAGE LIVES,  
AND EXPECTED MATURITIES OF THE 2011-1 NOTES AND PERCENTAGES OF ORIGINAL  
PRINCIPAL OF THE 2011-1 NOTES REMAINING AT CERTAIN QUARTERLY  
DISTRIBUTION DATES**

Prepayments on pools of student loans can be measured or calculated based on a variety of prepayment models. The model used to calculate prepayments is the constant prepayment rate (or “*CPR*”) model.

The CPR model is based on prepayments assumed to occur at a flat, constant percentage rate. CPR is stated as an annualized rate and is calculated as the percentage of the loan amount outstanding at the beginning of a period, after applying scheduled payments, that are paid during the period. The CPR model assumes that student loans will prepay in each month according to the following formula:

$$\text{Monthly Prepayments} = (\text{Principal Balance after scheduled payments}) \times (1 - (1 - \text{CPR})^{1/12})$$

The CPR model does not purport to describe historical prepayment experience or to predict the prepayment rate of any actual student loan pool. The student loans will not prepay according to the CPR, nor will all of the student loans prepay at the same rate. Potential investors must make an independent decision regarding the appropriate principal prepayment scenarios to use in making any investment decision.

**Cash Flow Assumptions for Structuring Runs**

The tables below have been prepared based on the assumptions described below (including the assumptions regarding the characteristics and performance of the rep lines, which will differ from the characteristics and performance of the actual pool of Financed Student Loans) and should be read in conjunction therewith. In addition, the diverse characteristics, remaining terms and loan ages of the Financed Student Loans could produce slower or faster principal payments than implied by the information in these tables, even if the dispersion of weighted average characteristics, remaining terms and loan ages are the same as the characteristics, remaining terms and loan ages assumed. Different assumptions will have a material impact on the information presented in this Appendix, and investors should make an independent assessment of the assumptions used herein.

For the purposes of calculating the information presented in the tables in this Appendix, it is assumed, among other things, that:

- the cutoff date for modeling the Student Loans that will become part of the Trust Estate on the Issue Date is as of January 31, 2011, and accruals on such Student Loans commence on February 1, 2011;
- the Issue Date is March 9, 2011;
- the Financed Student Loans have an Initial Pool Balance of \$470,506,528, including a principal balance of \$466,543,976 and accrued interest to be capitalized of \$3,962,553 as of January 31, 2011, \$1,813,282 of such accrued borrower interest is assumed to be capitalized when accruals commence on February 1, 2011, resulting in a principal balance of \$468,357,258 on such date;

- all Financed Student Loans (as grouped in the “rep lines” described below) remain in their current status until their status end date and then move to repayment, with the exception of in-school status loans which have a 6-month grace period before moving to repayment and in-claims loans for which a 97% reimbursement payment is received in 360 days; no Financed Student Loan moves from repayment to any other status;
- the Financed Student Loans that are (i) unsubsidized Stafford loans not in repayment status, (ii) subsidized Stafford loans in forbearance status, (iii) PLUS loans not in repayment status, (iv) unsubsidized Consolidation loans not in repayment status or (v) subsidized Consolidation loans in forbearance status, have interest accrued and capitalized upon entering repayment;
- the Financed Student Loans that are subsidized Stafford loans or subsidized Consolidation loans and are in-school, grace or deferment status have interest paid (Interest Subsidy Payments) by the U.S. Department of Education quarterly, based on a quarterly calendar accrual period;
- there are government payment delays of 30 days for Interest Subsidy Payments and Special Allowance Payments;
- no delinquencies or defaults occur on any of the Financed Student Loans, no repurchases occur, and all borrower payments are collected in full;
- index levels for calculation of borrower and government payments are:
  - 91-day Treasury bill bond equivalent rate of 0.12%; and
  - Three-month financial commercial paper bond equivalent rate of 0.27%
- quarterly distributions begin on July 25, 2011, and are made quarterly on the 25th day of every October, January, April and July thereafter, whether or not the 25th is a business day;
- the initial par amount of the 2011-1 Notes and the interest rate for each Tranche of the 2011-1 Notes at all times will equal:
  - A-1 Notes: \$98,000,000 and 0.76%
  - A-2 Notes: \$127,000,000 and 1.21%
  - A-3 Notes: \$220,000,000 and 1.21%
- a conversion of servicing to a backup servicer does not occur, and a Servicing Fee equal to 1/4<sup>th</sup> of 0.63% of the student loan principal balance is paid quarterly in arrears;
- an Administrator Fee equal to 1/4<sup>th</sup> of 0.02% of the student loan principal balance is paid quarterly in arrears;
- other Operating Costs equal \$100,000 per annum and no indemnities or other costs are paid;
- the Debt Service Reserve Fund has an initial balance equal to \$1,176,266 and at all times a balance equal to the greater of (i) 0.25% of the Principal Balance and (ii) \$470,507;

- the Capitalized Interest Fund has an initial balance equal to \$2,500,000 and steps down based on the amounts in the following schedule: 1,500,000 on 1/15/2012, \$500,000 on 7/15/2012 and \$0 on 7/15/2013;
- all payments are made at the end of the month, and amounts on deposit in the Collection Fund, the Operating Fund, the Debt Service Fund, the Capitalized Interest Fund and the Debt Service Reserve Fund, including reinvestment income earned in the previous month, net of Servicing Fees, are reinvested in Investment Obligations at the reinvestment rate of the 91-day Treasury bill bond equivalent rate through the end of the Collection Period, and reinvestment earnings are available for distribution from the prior Collection Period;
- prepayments on the Financed Student Loans are applied monthly in accordance with CPR, as described above;
- a borrower benefit interest rate reduction of 0.60% applies to 100% of the student loan principal balance, and no additional interest rate reductions or other borrower benefits are applied;
- the Authority does not exercise the optional redemption that may occur on Distribution Dates when the Pool Balance is below 10% of the Initial Pool Balance; and
- the initial pool of Student Loans was grouped into 187 representative loans (“rep lines”), which have been created, for modeling purposes, from individual student loans based on combinations of similar individual student loan characteristics, which include, but are not limited to, interest rate, loan type, SAP index and applicable margin, repayment status and remaining term

### CPR Tables

The following tables show the weighted average remaining lives, expected maturity dates and percentages of original principal of the 2011-1 Notes at various percentages of CPR expressed from the Issue Date until the last expected principal payment expected to occur without exercising the optional redemption.

#### Weighted Average Lives and Expected Maturity Dates of the 2011-1 Notes at Various Percentages of CPR

	<u>Weighted Average Life (years)<sup>(1)</sup></u>				
	<u>0%</u>	<u>2%</u>	<u>4%</u>	<u>6%</u>	<u>8%</u>
<b>A-1 Notes</b>	2.59	1.95	1.56	1.31	1.14
<b>A-2 Notes</b>	7.40	5.96	4.91	4.14	3.57
<b>A-3 Notes</b>	14.39	12.75	11.32	10.09	9.03

#### Expected Maturity Date

<b>A-1 Notes</b>	January 25, 2016	October 25, 2014	January 25, 2014	July 25, 2013	April 25, 2013
<b>A-2 Notes</b>	January 25, 2021	April 25, 2019	January 25, 2018	January 25, 2017	April 25, 2016
<b>A-3 Notes</b>	April 25, 2032	July 25, 2030	January 25, 2029	July 25, 2027	April 25, 2026

<sup>(1)</sup>The weighted average life of the 2011-1 Notes (assuming a 360-day year consisting of twelve 30-day months) is determined by: (i) multiplying the amount of each principal payment on the applicable 2011-1 Notes by the

number of years from the Issue Date to the related Distribution Date, (ii) adding the results, and (iii) dividing that sum by the aggregate principal amount of such 2011-1 Notes as of the Issue Date.

**Percentages of Original Principal of the A-1 Notes Remaining at  
Certain Distribution Dates at Various Percentages of CPR**

<b><u>Distribution Dates</u></b>	<b><u>0%</u></b>	<b><u>2%</u></b>	<b><u>4%</u></b>	<b><u>6%</u></b>	<b><u>8%</u></b>
Issue Date	100%	100%	100%	100%	100%
July 25, 2011	91%	88%	85%	82%	79%
July 25, 2012	73%	63%	53%	42%	32%
July 25, 2013	53%	34%	16%	0%	0%
July 25, 2014	31%	6%	0%	0%	0%
July 25, 2015	8%	0%	0%	0%	0%
July 25, 2016	0%	0%	0%	0%	0%

**Percentages of Original Principal of the A-2 Notes Remaining at  
Certain Distribution Dates at Various Percentages of CPR**

<b><u>Distribution Dates</u></b>	<b><u>0%</u></b>	<b><u>2%</u></b>	<b><u>4%</u></b>	<b><u>6%</u></b>	<b><u>8%</u></b>
Issue Date	100%	100%	100%	100%	100%
July 25, 2011	100%	100%	100%	100%	100%
July 25, 2012	100%	100%	100%	100%	100%
July 25, 2013	100%	100%	100%	99%	86%
July 25, 2014	100%	100%	86%	68%	51%
July 25, 2015	100%	82%	60%	39%	19%
July 25, 2016	88%	60%	35%	11%	0%
July 25, 2017	69%	38%	10%	0%	0%
July 25, 2018	49%	16%	0%	0%	0%
July 25, 2019	28%	0%	0%	0%	0%
July 25, 2020	6%	0%	0%	0%	0%
July 25, 2021	0%	0%	0%	0%	0%

**Percentages of Original Principal of the A-3 Notes Remaining at  
Certain Distribution Dates at Various Percentages of CPR**

<b><u>Distribution Dates</u></b>	<b><u>0%</u></b>	<b><u>2%</u></b>	<b><u>4%</u></b>	<b><u>6%</u></b>	<b><u>8%</u></b>
Issue Date	100%	100%	100%	100%	100%
July 25, 2011	100%	100%	100%	100%	100%
July 25, 2012	100%	100%	100%	100%	100%
July 25, 2013	100%	100%	100%	100%	100%
July 25, 2014	100%	100%	100%	100%	100%
July 25, 2015	100%	100%	100%	100%	100%
July 25, 2016	100%	100%	100%	100%	94%
July 25, 2017	100%	100%	100%	91%	78%
July 25, 2018	100%	100%	92%	77%	64%
July 25, 2019	100%	96%	79%	64%	52%
July 25, 2020	100%	83%	66%	52%	40%
July 25, 2021	90%	71%	54%	41%	30%
July 25, 2022	77%	58%	43%	31%	21%
July 25, 2023	65%	48%	34%	22%	14%
July 25, 2024	54%	37%	25%	15%	7%
July 25, 2025	45%	30%	18%	9%	3%
July 25, 2026	36%	22%	12%	4%	0%
July 25, 2027	27%	15%	6%	0%	0%
July 25, 2028	20%	9%	2%	0%	0%
July 25, 2029	14%	4%	0%	0%	0%
July 25, 2030	8%	0%	0%	0%	0%
July 25, 2031	3%	0%	0%	0%	0%
July 25, 2032	0%	0%	0%	0%	0%

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**APPENDIX H**

**PREPAYMENT AND DEFAULT EXPERIENCE**

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The following tables detail the prepayment experience of the Authority and the Foundation with respect to all Stafford, PLUS and Consolidation loans serviced by the Foundation and pledged to trust estates securing bonds issued by the Authority. The various columns below represent pools, or groups, of loans entering repayment from November through January. For example, the 2000 Pool consists of loans entering repayment from November 2000 through January 2001. The percentages in the table represent the prepayments measured under a constant prepayment rate (or “CPR”) model. The CPR model is based on prepayments assumed to occur at a flat, constant percentage rate. CPR is stated as an annualized rate and is calculated as the percentage of the loan amount outstanding at the beginning of a period, after applying scheduled payments, that are paid during the period. The following formula has been used to calculate the historical prepayment speed on a periodic basis and cumulative basis for each of the pools:

$$\text{Annual Historical Prepayment Rate} = 1 - (\text{Actual Principal Balance} / \text{Scheduled Principal Balance based on weighted average coupon and weighted average maturity of such pool}) ^ {12 / \text{Actual Time Interval in Months}}$$

STAFFORD LOANS - HISTORICAL PREPAYMENT RATES											
Repayment Year	1997 Pool	1998 Pool	1999 Pool	2000 Pool	2001 Pool	2002 Pool	2003 Pool	2004 Pool	2005 Pool	2006 Pool	2007 Pool
1998	10.9%										
1999	12.6	20.7%									
2000	6.7	6.9	16.4%								
2001	12.0	10.7	12.4	18.6%							
2002	15.3	16.2	16.2	18.1	30.3%						
2003	20.7	20.6	19.5	20.9	20.8	39.5%					
2004	19.7	18.4	17.0	15.6	15.6	14.4	41.6%				
2005	30.7	26.4	23.8	23.3	23.1	17.9	20.8	50.4%			
2006	38.7	37.0	31.6	29.5	28.5	27.7	28.7	32.2	57.0%		
2007	23.2	27.1	22.4	19.0	14.0	13.2	13.7	11.6	14.6	39.6%	
2008	17.2	18.2	22.3	23.6	15.5	10.9	10.0	9.2	8.0	6.3	28.5%
2009	7.7	12.6	13.9	14.6	15.7	9.6	7.7	6.4	4.3	3.8	4.5
2010	5.0	6.2	7.8	11.0	13.9	9.7	8.4	6.2	4.9	4.7	4.0
Cumulative	21.7%	22.6%	22.1%	22.4%	22.5%	20.6%	21.3%	22.6%	22.2%	16.1%	13.8%
Pool Amount	\$88,061,223	\$89,464,541	\$91,011,588	\$97,420,717	\$107,170,213	\$97,629,180	\$113,324,958	\$139,845,806	\$137,166,930	\$116,514,115	\$186,862,304

<b>PLUS LOANS - HISTORICAL PREPAYMENT RATES</b>											
<b>Repayment Year</b>	<b>1997 Pool</b>	<b>1998 Pool</b>	<b>1999 Pool</b>	<b>2000 Pool</b>	<b>2001 Pool</b>	<b>2002 Pool</b>	<b>2003 Pool</b>	<b>2004 Pool</b>	<b>2005 Pool</b>	<b>2006 Pool</b>	<b>2007 Pool</b>
<b>1998</b>	7.4%										
<b>1999</b>	9.5	10.7%									
<b>2000</b>	8.5	7.3	10.5%								
<b>2001</b>	13.7	13.2	8.4	13.5%							
<b>2002</b>	19.2	21.0	17.5	15.9	18.7%						
<b>2003</b>	23.7	23.6	27.9	25.1	20.8	23.2%					
<b>2004</b>	21.5	19.4	17.5	22.1	20.4	18.0	22.4%				
<b>2005</b>	33.0	26.9	23.8	28.7	32.9	34.0	37.1	40.6%			
<b>2006</b>	46.4	43.2	34.1	35.4	33.0	38.3	41.9	46.4	52.7%		
<b>2007</b>	25.9	39.3	30.8	27.7	18.2	14.6	14.6	13.5	14.0	18.0%	
<b>2008</b>	10.1	17.5	34.8	32.0	19.8	11.8	10.2	9.7	9.1	9.7	11.8%
<b>2009</b>	0.7	10.4	21.4	17.7	27.7	14.1	8.6	6.8	7.1	5.7	4.1
<b>2010</b>	3.2	5.6	8.9	16.8	26.7	23.0	13.2	11.1	10.5	7.8	6.5
<b>Cumulative</b>	23.9%	25.3%	26.2%	27.2%	27.9%	24.4%	23.4%	24.2%	21.9%	11.5%	8.4%
<b>Pool Amount</b>	\$9,668,715	\$12,326,943	\$11,998,220	\$21,617,999	\$29,497,053	\$39,582,345	\$50,225,732	\$61,979,060	\$71,390,307	\$83,925,515	\$86,298,658

<b>CONSOLIDATION LOANS - HISTORICAL PREPAYMENT RATES</b>										
<b>Repayment Year</b>	<b>1998 Pool</b>	<b>1999 Pool</b>	<b>2000 Pool</b>	<b>2001 Pool</b>	<b>2002 Pool</b>	<b>2003 Pool</b>	<b>2004 Pool</b>	<b>2005 Pool</b>	<b>2006 Pool</b>	<b>2007 Pool</b>
<b>1998</b>										
<b>1999</b>	3.8%									
<b>2000</b>	3.4	1.8%								
<b>2001</b>	4.3	3.7	3.4%							
<b>2002</b>	3.2	5.1	5.2	3.0%						
<b>2003</b>	5.5	3.4	3.7	0.9	3.4%					
<b>2004</b>	13.0	5.3	8.4	2.7	2.2	2.6%				
<b>2005</b>	16.3	12.6	9.4	3.0	3.2	3.9	4.1%			
<b>2006</b>	8.8	8.9	5.9	7.7	4.5	4.6	3.6	6.0%		
<b>2007</b>	3.5	4.1	6.0	4.8	2.6	2.2	1.7	1.5	3.5%	
<b>2008</b>	9.2	3.7	3.2	9.3	3.7	2.6	2.2	1.9	2.6	1.8%
<b>2009</b>	6.2	4.4	6.0	3.3	4.7	2.6	1.2	1.9	1.5	2.8
<b>2010</b>	4.7	4.0	3.0	4.3	5.6	3.4	2.2	2.2	2.1	2.5
<b>Cumulative</b>	7.2%	5.5%	5.8%	4.6%	4.0%	3.4%	2.7%	2.8%	2.5%	2.4%
<b>Pool Amount</b>	\$5,987,692	\$10,240,762	\$7,708,248	\$8,327,406	\$37,950,054	\$33,919,122	\$55,944,478	\$81,704,520	\$56,003,104	\$48,992,772

The following tables detail the default experience of the Authority and the Foundation with respect to all Stafford, PLUS and Consolidation loans serviced by the Foundation and pledged to trust estates securing bonds issued by the Authority. The various columns below represent pools, or groups, of loans entering repayment from November through January. For example, the 2000 Pool consists of loans entering repayment from November 2000 through January 2001. The historical default rates in the table represent the principal default claims of each pool during the repayment periods listed in the first column divided by the principal balance of such pool at the beginning of repayment and all accrued interest having been capitalized on such pool through the end of that year:

STAFFORD LOANS - HISTORICAL DEFAULT RATES												
Repayment Period (Year)	1997 Pool	1998 Pool	1999 Pool	2000 Pool	2001 Pool	2002 Pool	2003 Pool	2004 Pool	2005 Pool	2006 Pool	2007 Pool	Average
1	1.7%	2.0%	2.4%	1.6%	0.9%	0.8%	0.9%	0.9%	1.0%	1.7%	1.6%	1.4%
2	2.4	2.2	2.2	1.1	0.7	0.6	1.0	0.9	1.2	1.8	1.3	1.4
3	1.7	1.9	0.8	0.4	0.9	1.0	0.9	0.9	1.5	1.7	1.2	1.2
4	1.8	0.6	0.3	0.5	0.9	1.0	0.9	1.1	0.9	1.2		0.9
5	0.4	0.1	0.3	0.7	1.0	1.0	1.3	0.7	0.8			0.7
6	0.2	0.3	0.4	0.6	0.7	1.1	0.8	0.4				0.6
7	0.3	0.2	0.3	0.6	0.9	0.6	0.5					0.5
8	0.4	0.3	0.4	0.8	0.6	0.4						0.5
9	0.2	0.3	0.5	0.4	0.3							0.3
10	0.2	0.3	0.4	0.3								0.3
11	0.3	0.2	0.2									0.2
12	0.1	0.1										0.1
13	0.1											0.1
Cumulative	9.7%	8.6%	8.1%	7.1%	6.9%	6.5%	6.2%	5.0%	5.3%	6.4%	4.1%	
Pool Amount	\$93,102,486	\$93,971,915	\$95,176,695	\$101,658,700	\$110,967,527	\$100,755,020	\$116,839,751	\$143,827,791	\$141,550,923	\$121,117,144	\$192,556,380	

PLUS LOANS - HISTORICAL DEFAULT RATES												
Repayment Period (Year)	1997 Pool	1998 Pool	1999 Pool	2000 Pool	2001 Pool	2002 Pool	2003 Pool	2004 Pool	2005 Pool	2006 Pool	2007 Pool	Average
1	0.4%	0.6%	0.2%	0.2%	0.4%	0.3%	0.3%	0.2%	0.2%	0.1%	0.1%	0.3%
2	1.3	0.8	0.8	0.6	0.2	0.3	0.4	0.3	0.2	0.2	0.4	0.5
3	1.0	1.1	0.5	0.5	0.6	0.2	0.2	0.2	0.3	0.5	0.4	0.5
4	0.8	0.5	0.3	0.5	0.4	0.4	0.3	0.2	0.3	0.5		0.4
5	0.3	0.3	0.4	0.5	0.5	0.3	0.2	0.2	0.3			0.3
6	0.3	0.3	0.5	0.2	0.3	0.2	0.2	0.2				0.3
7	0.1	0.3	0.2	0.2	0.3	0.3	0.1					0.2
8	0.2	0.3	0.2	0.2	0.2	0.2						0.2
9	0.1	0.1	0.2	0.2	0.1							0.1
10	0.2	0.3	0.1	0.2								0.2
11	0.1	0.1	0.0									0.1
12	0.1	0.1										0.1
13	0.1											0.1
Cumulative	5.0%	4.7%	3.4%	3.2%	2.9%	2.1%	1.7%	1.2%	1.3%	1.3%	0.9%	
Pool Amount	\$9,870,730	\$12,554,283	\$12,207,630	\$21,947,248	\$29,854,561	\$39,938,075	\$50,587,423	\$62,369,514	\$71,831,937	\$86,480,615	\$89,968,268	

CONSOLIDATION LOANS - HISTORICAL DEFAULT RATES											
Repayment Period (Year)	1998 Pool	1999 Pool	2000 Pool	2001 Pool	2002 Pool	2003 Pool	2004 Pool	2005 Pool	2006 Pool	2007 Pool	Average
1	0.0%	0.7%	0.0%	0.0%	0.1%	0.3%	0.1%	0.1%	0.3%	0.3%	0.2%
2	0.8	1.0	0.2	0.0	0.1	0.3	0.0	0.3	0.7	0.6	0.4
3	1.6	1.1	0.0	1.5	0.1	0.3	0.3	0.5	0.6	0.7	0.7
4	0.0	0.3	0.5	0.0	0.2	0.3	0.9	0.6	0.8		0.4
5	0.0	1.0	0.4	0.0	0.2	0.3	0.1	0.6			0.3
6	0.9	1.6	0.2	0.7	0.5	0.3	0.6				0.7
7	0.5	1.3	0.9	0.5	0.5	0.7					0.7
8	0.3	0.5	1.1	0.2	0.7						0.6
9	3.0	0.3	1.5	0.7							1.4
10	0.8	0.5	0.0								0.4
11	0.2	0.1									0.2
12	0.3										0.3
<b>Cumulative</b>	8.4%	8.4%	4.7%	3.6%	2.3%	2.5%	2.0%	2.1%	2.4%	1.6%	
<b>Pool Amount</b>	\$6,723,455	\$11,220,901	\$8,573,160	\$8,902,782	\$39,021,487	\$34,667,639	\$57,271,963	\$84,125,452	\$58,239,010	\$50,901,614	

Past performance does not guarantee future results.



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# NCSEAA

*North Carolina State Education  
Assistance Authority*

