

NEW ISSUE — BOOK-ENTRY ONLY

SUPPLEMENT DATED JULY 22, 1998
to
OFFERING MEMORANDUM
Relating to
EDUCATION SERVICES FOUNDATION
STUDENT LOAN ASSET-BACKED NOTES, SERIES 1996
(Taxable Auction Rate Securities)

Price: 100%

Due: October 1, 2026

Offered Notes. Education Services Foundation (the "Foundation") has authorized the issuance of up to \$113,000,000 maximum principal amount of Student Loan Asset-Backed Notes, Series 1996 (the "Notes"), as described in the attached Offering Memorandum. Reference should be made to such Offering Memorandum for a more complete description of the Notes and for definitions of terms used in this Supplement. A portion of the Notes is currently being offered on the Initial Auction Date set forth below for delivery on August 3, 1998, as follows:

	<u>Principal Amount</u>	<u>Price to Public</u>	<u>Underwriting Fee</u>	<u>Net Proceeds Available to the Foundation*</u>
Notes Offered hereby . .	\$53,000,000	100%	0.59%	\$ 52,687,300

* After payment of Underwriting Fee and before deducting expenses estimated to be \$250,000.

Delivery Date: August 3, 1998

Initial Auction Date: July 31, 1998

First Interest Payment Date: August 31, 1998

Outstanding Notes. There is currently Outstanding \$60,000,000 principal amount of the Notes \$30,000,000 of which were issued on October 31, 1996 and \$30,000,000 of which were issued on May 12, 1997. (See "INTRODUCTION" in the Offering Memorandum.) After the issuance of the Notes offered hereby, there will be outstanding \$113,000,000 principal amount of the Notes.

Application of Note Proceeds. The Notes offered hereby are being issued to provide the Foundation with funds to, among other things, acquire and refinance eligible student loans. Such student loans will be guaranteed by authorized guarantee agencies and reinsured by the United States government ("Eligible Loans"). For further information regarding the application of the Note proceeds, see "ESTIMATED SOURCES AND USES OF FUNDS" on the reverse side of this Supplement and "THE STUDENT LOAN PURCHASE PROGRAM" in the Offering Memorandum.

Insurance. Regularly scheduled payments of the principal of and interest (but not any prepayment premium or Carry-over Amount or interest accrued thereon) on the Notes offered hereby will be insured, as are the regularly scheduled payments of principal of and interest on all Outstanding Notes, by a financial guaranty insurance policy to be issued by



Insurance Corporation simultaneously with the issuance of the Notes offered hereby. Such financial guaranty insurance policy will replace the financial guaranty insurance policy currently insuring the regularly scheduled payment of the principal of and interest, but not any prepayment premium or Carry-over Amount or interest accrued thereon, on the Outstanding Notes.

Security for the Notes. The Notes offered hereby will be special obligations of the Foundation payable, on a parity with all other Outstanding Notes, solely from the Trust Estate, as described in the Offering Memorandum and, in certain circumstances, from amounts received under the Insurance Policy. See "SECURITY FOR THE NOTES" and "THE MBIA INSURANCE CORPORATION INSURANCE POLICY" in the Offering Memorandum.

Portfolio. Information about the Eligible Loans currently held under the Indenture and the Eligible Loans expected to be acquired with the proceeds of the Notes offered hereby is included in Appendix D of the Offering Memorandum.

Delivery. The Notes offered hereby are offered when, as and if issued and sold in the Auction on July 31, 1998, subject to the matters set forth in the Offering Memorandum. Notes in definitive form are expected to be available for delivery through the facilities of DTC on the Delivery Date set forth above.

Salomon Smith Barney

ESTIMATED SOURCES AND USES OF FUNDS

The proceeds of the sale of the Notes offered hereby, net of Underwriter's fee of \$312,700, and other moneys will be transferred to the Trustee for deposit in the following estimated amounts to the credit of the following Subaccounts and applied in the following estimated amounts:

ESTIMATED SOURCES OF FUNDS

Proceeds of the Notes (Net of Underwriter's Fee)	<u>\$52,687,300</u>
Total Estimated Sources	<u>\$52,687,300</u>

ESTIMATED USES OF FUNDS

Acquisition Subaccount	\$47,950,000
Reserve Subaccount	2,120,000
Capitalized Costs Subaccount	<u>2,617,300</u>
Total Estimated Uses	<u>\$52,687,300</u>

No dealer, broker, salesman or other person has been authorized by the Foundation or the Underwriter to give any information or to make any representations, other than those contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Supplement and the attached Offering Memorandum do not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth in this Supplement and the attached Offering Memorandum has been obtained from the Foundation, the Servicers, the Guarantors, the Insurer, the Trustee, DTC and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or its counsel. The Underwriter and its counsel have made no independent verification of the information contained herein relating to the Foundation, the Servicers, the Guarantors, the Insurer, the Trustee, or DTC. The information and expressions of opinion in this Supplement and the attached Offering Memorandum are subject to change without notice, and neither the delivery of this Supplement and the attached Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Foundation, the Servicers, the Guarantors, the Insurer or DTC since the date of this Supplement. This Supplement and the attached Offering Memorandum do not constitute a contract between the Foundation, or the Underwriter, and any one or more of the purchasers or Holders of the Notes offered hereby.

IN CONNECTION WITH THE OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE NOTES OFFERED HEREBY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Upon issuance, the Notes offered hereby will not be registered under the Securities Act of 1933 and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed on the accuracy of this Supplement or the attached Offering Memorandum or approved the Notes offered hereby for sale. The Indenture has not been qualified under the Trust Indenture Act of 1939.

OFFERING MEMORANDUM
related to
\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi
Student Loan Asset-Backed Notes, Series 1996
Auction Rate Securities

Education Services Foundation (the "Foundation") has authorized the issuance of up to \$113,000,000 aggregate principal amount of its Student Loan Asset-Backed Notes, Series 1996 (the "Notes"), pursuant to the Trust Indenture, dated as of October 1, 1996, as supplemented by the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture, each to be dated as of July 31, 1998 (as so supplemented and as hereafter supplemented, the "Indenture"), as more fully described herein. On October 31, 1996, the Foundation issued the initial \$30,000,000 of Notes (the "Initial Notes") and on May 12, 1997, the Foundation issued a subsequent \$30,000,000 of Notes (together with the Initial Notes, the "Outstanding Notes"). Additional Notes (the "Additional Notes") in an aggregate principal amount (together with the Outstanding Notes) not to exceed \$113,000,000 may be issued from time to time in accordance with the provisions of the Indenture. Additional Notes will be offered for sale pursuant to this Offering Memorandum, as supplemented by a supplement hereto providing specific information with respect to such Additional Notes. The Indenture provides that the Notes are dated October 31, 1996, the date of issuance of the Initial Notes, issued as fully registered notes in book-entry form and registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC is acting as securities depository (the "Depository"). Book-entry interests in the Notes are available for purchase in the principal amount of \$100,000 or any integral multiple thereof. Purchasers of the Notes do not receive physical delivery of note certificates representing their interest in the Notes purchased. The principal of and interest on the Notes is payable by Trustmark National Bank, Jackson, Mississippi, as trustee (the "Trustee"), to the Depository, which in turn remits such principal and interest to its Participants which in turn remits such principal and interest to the Beneficial Owners of the Notes.

The Notes are issued as Auction Rate Securities (the "Auction Rate Securities"). The initial rate of interest on any Additional Notes will be established pursuant to the Auction Procedures described herein.

The Notes bear interest for each Interest Period, until a Conversion, at a rate established pursuant to the Auction Procedures described herein, generally based upon a 28-day Auction Period (unless the length of the Auction Period is changed pursuant to an Auction Period Adjustment), but in no event greater than 16% per annum (the "Interest Rate Limitation"). After Conversion, if any, the Notes will bear interest at an interest rate or rates other than an Auction Rate, as determined pursuant to a Supplemental Indenture. Upon Conversion, the Notes will be subject to mandatory tender. Interest on the Notes, until their Conversion, if any, is payable on the first Business Day following the expiration of each Auction Period. See "THE NOTES — Interest Rates on the Notes."

Smith Barney Inc. has, from time to time, made, and may, from time to time, make, a secondary market in the Notes, but is not obligated to do so. There can be no assurance that such a secondary market will be available at any given time or, if available, that such a market will continue to be available.

UPON ISSUANCE, THE ADDITIONAL NOTES WILL NOT BE REGISTERED BY THE ISSUER UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAW, AND WILL NOT BE LISTED ON ANY STOCK OR OTHER SECURITIES EXCHANGE. NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY OTHER FEDERAL, STATE OR OTHER GOVERNMENTAL ENTITY OR AGENCY WILL HAVE PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM OR APPROVED THE ADDITIONAL NOTES FOR SALE.

The Notes are subject to optional and mandatory redemption prior to their stated maturity at the times and price, on the terms and upon the occurrence of certain events described under "REDEMPTION".

The Notes are issued to provide the Foundation with funds to, among other things, acquire and refinance eligible student loans. See "THE STUDENT LOAN PURCHASE PROGRAM" herein. Such student loans will be guaranteed by authorized guarantee agencies and reinsured by the United States government ("Eligible Loans"). The Notes are special obligations of the Foundation payable solely from the Trust Estate, as described herein and, in certain circumstances, from amounts received under the Insurance Policy. See "SECURITY FOR THE NOTES" and "THE MBIA INSURANCE CORPORATION INSURANCE POLICY" herein.

Regularly scheduled payments of the principal of and interest (but not any prepayment premium or Carry-over Amount or interest accrued thereon) on the Notes are insured by a financial guaranty insurance policy issued by



Insurance Corporation simultaneously with the issuance of Notes.

THE NOTES ARE SPECIAL OBLIGATIONS OF THE FOUNDATION, A PRIVATE NONPROFIT CORPORATION ORGANIZED UNDER THE LAWS OF THE STATE OF MISSISSIPPI. NEITHER THE STATE OF MISSISSIPPI NOR ANY AGENCY OR POLITICAL SUBDIVISION OF THE STATE WILL BE LIABLE ON THE NOTES, AND THE NOTES ARE NOT A DEBT OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF FOR ANY PURPOSE WHATSOEVER.

THE NOTES ARE PAYABLE SOLELY FROM THE TRUST ESTATE. THEY ARE NOT A GENERAL OBLIGATION OF THE FOUNDATION.

INTEREST ON THE NOTES IS NOT EXEMPT FROM FEDERAL OR STATE INCOME TAX.

Watkins Ludlam Winter & Stennis, P.A., Jackson, Mississippi, has rendered an opinion as bond counsel with respect to the validity of the Outstanding Notes. Any Additional Notes will be offered subject to the approval of the validity thereof by Watkins Ludlam Winter & Stennis, P.A. Certain legal matters with respect to the Outstanding Notes have been, and it is anticipated that certain legal matters with respect to any Additional Notes will be, passed upon for the Foundation by its counsel, Watkins Ludlam Winter & Stennis, P.A. Certain legal matters with respect to the Outstanding Notes have been, and it is anticipated that certain legal matters with respect to any Additional Notes will be, passed upon for the Underwriter by its counsel, Calfee, Halter & Griswold LLP, Cleveland, Ohio.

Salomon Smith Barney

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OFFERING MEMORANDUM SUMMARY

The following summary is qualified in its entirety by reference to the detailed information appearing elsewhere in this Offering Memorandum. Reference is made to the APPENDIX A "Definitions of Certain Terms," for the definitions of certain capitalized terms used herein.

Title of Securities.....	\$113,000,000 maximum principal amount of Student Loan Asset-Backed Notes, Series 1996 (the "Notes"). See "THE NOTES - Additional Notes and Other Obligations".
Issuer.....	Education Services Foundation (the "Foundation").
Servicers	SunTech, Inc. and UNIPAC Service Corporation.
Trustee	Trustmark National Bank, as trustee (the "Trustee").
The Trust Estate	A trust was formed pursuant to the Indenture of Trust dated as of October 1, 1996 (as supplemented by the First Supplemental Trust Indenture and Second Supplemental Trust Indenture, each to be dated as of July 31, 1998, and as hereafter supplemented, the "Indenture"), by and between the Foundation and the Trustee. The assets of the trust include all rights, title, interest and privileges of the Foundation with respect to Pledged Student Loans (as hereinafter defined and including the evidences of indebtedness thereof and related documentation), and in, to and under all Guarantee Agreements, the Contract of Insurance, the Certificates of Insurance, all Purchase Agreements and all Federal Reimbursement Contracts insofar as they relate to the Pledged Student Loans; and all rights, title interests and privileges of the Foundation in and to the revenues, moneys, evidences of indebtedness and securities in and payable into the Trust Estate Fund, including any contract or any evidence of indebtedness or other rights of the Foundation to receive any of the same, whether now existing or hereafter coming into existence, and whether now or hereafter acquired.
Purchase Agreements.....	The Foundation, as purchaser, has entered or will enter into certain Master Student Loan Purchase Agreements (each a "Purchase Agreement") with various sellers of Student Loans. Pursuant to a Purchase Agreement, a seller will sell all of its right, title and interest in the Student Loans subject to such Purchase Agreement to the Foundation. Upon payment for such Loan with the proceeds of the Notes or other moneys held in the Trust Estate, such Student Loans will be conveyed to the Trustee who shall take all actions necessary in order to hold legal title to such Student Loans on behalf of the Foundation. Proceeds of the Notes may also be used to refinance Student Loans previously acquired by the

Foundation pursuant to Purchase Agreements or as a result of origination by the Foundation.

Servicing.....

The Servicers will be responsible for servicing, managing and making collections on the Pledged Student Loans and are required to perform all services and duties customary to the servicing of Student Loans in compliance with the standards and procedures provided for in the Higher Education Act of 1965, as amended (the "Act"), the Guarantee Agreements with the Guarantors, and the Servicing Agreements. See "THE STUDENT LOAN PURCHASE PROGRAM - Servicing and Due Diligence".

Terms of Notes

General. The Notes are issued as Auction Rate Securities in Authorized Denominations of \$100,000 or integral multiples thereof and will bear interest at an Auction Rate based upon a 28-day Auction Period, generally beginning on a Monday and ending on the fourth Sunday thereafter, subject to adjustment as described herein. The Net Loan Rate for the Notes is the Applicable United States Treasury Security Rate plus 1.50%. For Auction Periods of 180 days or less, the Applicable United States Treasury Security Rate is the rate of the 91-day United States Treasury Bill, and for Auction Periods of more than 180 days, the Applicable United States Treasury Security Rate is the rate of the one-year United States Treasury Bill. The Interest Rate Limitation with respect to the Notes is 16%. See "Interest Rates on the Notes -- Auction Rate Securities" and "Carry-over Amounts on the Notes. "

Optional Redemption of the Notes. The Notes are subject to redemption in whole or in part on any Interest Payment Date prior to the Maturity Date at the option of the Foundation and with the prior written consent of the Insurer, upon notice given by the Trustee not less than fifteen (15) nor more than sixty (60) days prior to such Redemption Date, at a redemption price of 100% of the principal amount redeemed plus accrued interest to the Redemption Date. An optional redemption will occur only at such times as there are funds on deposit with the Trustee at least equal to the interest due and any Carry-over Amount (and interest accrued thereon) on the Notes on the Redemption Date. See "REDEMPTION - Optional Redemption Prior to Maturity.

Mandatory Redemption of the Notes. The Notes are subject to mandatory redemption upon the deposit of certain funds in the Redemption Subaccount. See "REDEMPTION--Mandatory Redemption Prior to Maturity".

Book-entry System. The Notes are issued as fully registered notes in Book-entry Form only registered in the

name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC acts as securities depository (the "Depository") for the Notes. So long as the Notes are in Book-entry Form, the Depository will be the sole Holder. The principal of and interest on the Notes is payable by the Trustee to the Depository, which in turn will remit such principal and interest to its Participants, which in turn will remit such principal and interest to the Beneficial Owners of the Notes.

Ratings. It is a condition to the purchase of the Notes by the Underwriter that they be rated in the highest long-term rating category by Moody's and Fitch upon issuance by the hereinafter defined Insurer of a financial guaranty insurance policy. It is a condition to the issuance of any Additional Notes that the delivery of such Notes will not adversely affect any rating with respect to the Outstanding Notes. See "RATINGS".

Insurance. Regularly scheduled payments of the principal of and interest (but not any prepayment premium) on the Notes are insured by the financial guaranty insurance policy (the "Insurance Policy") issued by MBIA Insurance Corporation (the "Insurer") to be effective with respect to Additional Notes simultaneously with the issuance of the Notes. The Insurance Policy does not insure the payment of Carry-over Amount (or any interest accrued thereon). See "THE MBIA INSURANCE CORPORATION INSURANCE POLICY".

Interest

General. Interest on the Notes accrues for the period beginning on and including the later of the Closing Date or the most recent Interest Payment Date and ending on and including the day preceding the next succeeding Interest Payment Date. Any such date on which interest is to be paid as described herein is referred to herein as an "Interest Payment Date."

Auction Rate Securities. The Notes are initially issued as Auction Rate Securities bearing interest for each Interest Period, until their Conversion, if any, at an Interest Rate equal to the lesser of the Auction Rate and the Net Loan Rate, subject to the Interest Rate Limitation, except that in the case of a Payment Default, the Interest Rate will equal the Non-Payment Rate. The length of each Interest Period for the Notes is generally 28 days, subject to adjustment pursuant to an Auction Period Adjustment as hereinafter described. The Auction Rate is determined by the Auction Agent pursuant to the Auction Procedures described herein. The Net Loan Rate with respect to the Notes is the Applicable United States Treasury Security Rate plus 1.50%. See "THE NOTES -- Carry-over Amounts on the Notes." Interest on Notes, until a Conversion Date, if any, is payable on the Business Day

following the expiration of each Auction Period to each Holder of record as of the Business Day immediately preceding the Interest Payment Date. Interest is computed on the basis of the actual number of days in each Interest Period and a year composed of 360 days. See "THE NOTES -- Interest Rates on the Notes" and APPENDIX E, "AUCTION PROCEDURES."

Carry-over Amounts on the Notes.....

Auction Rate Securities. If for any Interest Period with respect to any Auction Rate Securities, the Auction Rate exceeds the Net Loan Rate, the Interest Rate for such Interest Period will be the Net Loan Rate, subject to the Interest Rate Limitation, and the excess of the amount of interest that would have accrued on a Note at a rate equal to the Auction Rate, over the amount of interest actually accrued at the Net Loan Rate, will accrue as Carry-over Amount with respect to such Note. The Carry-over Amount on any Notes bears interest at a rate equal to One-Month LIBOR from the Interest Payment Date for the Interest Period for which the Carry-over Amount was calculated until paid. Such Carry-over Amount and the accrued interest thereon will be paid on the earlier of (a) the Conversion Date or date of optional redemption, and if so paid will be paid in full or (b) the first occurring Interest Payment Date and on each succeeding Interest Payment Date until fully paid, for an Interest Period subsequent to the Interest Period in which such Carry-over Amount accrued, (1) if and to the extent that during such subsequent Interest Period no additional Carry-over Amount is accruing on such Notes, and (2) if so paid during such Interest Period, such Carry-over Amount is paid solely to the extent that (A) the amount of interest that would be payable on such Note at the Net Loan Rate exceeds the amount of interest that is payable on such Note at the Auction Rate, and (B) on such Interest Payment Date there are sufficient moneys in the Current Debt Service-Interest Subaccount after paying all interest due on the Notes on such Interest Payment Date and any Swap Payment due on such Interest Payment Date, making certain other transfers set forth in the Indenture and satisfying other conditions in the Indenture to pay all or a portion of such Carry-over Amounts equal to the excess calculated pursuant to clause 2(A) above. See "THE NOTES - Carry-over Amounts on the Notes".

General. Any reference herein or in the Indenture to "principal" or "interest" does not include within the meaning of such words Carry-over Amount or any interest accrued thereon. Carry-over Amount is due and payable only upon the satisfaction of certain conditions. See "THE NOTES -- Carry-over Amounts on the Notes". THE INSURANCE POLICY ISSUED BY MBIA INSURANCE CORPORATION DOES NOT APPLY TO ANY CARRY-OVER AMOUNT (OR INTEREST

ACCRUED THEREON). ANY UNPAID CARRY-OVER AMOUNT ON A NOTE NOT DUE AND PAYABLE AT MATURITY OR ON THE MANDATORY REDEMPTION DATE OF SUCH NOTE OR THE DATE ON WHICH SUCH NOTE IS NO LONGER OUTSTANDING UNDER THE INDENTURE SHALL BE FORFEITED.

Auction Period Adjustment

With respect to any Notes, until their Conversion, if any, the Foundation may, from time to time, change the length of one or more Auction Periods in order to conform with then current market practice or accommodate other economic or financial factors that may affect or be relevant to the length of the Auction Period or the Auction Rate (as hereinafter described, an "Auction Period Adjustment"). No Auction Period Adjustment may result in an Auction Period of less than 7 nor more than 366 days or be allowed unless certain conditions described herein are satisfied. See APPENDIX E, "AUCTION PROCEDURES".

Conversion.....

At the option of the Foundation and with the prior written consent of the Insurer, the method of determining the Interest Rate for any Notes is subject to Conversion on any Interest Payment Date (a "Conversion Date") to an interest rate calculated on a different basis, as set forth in a Supplemental Indenture executed in connection with the Conversion. No Supplemental Indenture will be executed in connection with a Conversion unless the Foundation has furnished to the Trustee prior to such execution the written consent of the Insurer.

Cash Flow Assumptions

The Foundation expects, and the Current Cash Flow Projection prepared by Smith Barney Inc., using the assumptions in APPENDIX D, indicates that the revenues will be sufficient to pay principal of and interest on the Notes when due. See "SUMMARY OF CURRENT CASH FLOW PROJECTION" and APPENDIX D, "CASH FLOW ASSUMPTIONS AND OTHER CONSIDERATIONS".

Swap Agreements

The Indenture authorizes the Foundation to enter into one or more Swap Agreements (the "Swap Agreements") with the consent of the Insurer, with one or more Swap Counterparties approved by the Insurer. If the Foundation enters into such an agreement with a Swap Counterparty, the Swap Counterparty will agree to pay the Trustee on each Interest Payment Date or other date upon which a Counterparty Swap Payment is due a fixed or variable interest rate on a notional amount which may be equal to, or less than, the principal amount of the Notes Outstanding; the Foundation will agree to pay on each Interest Payment Date or other date upon which a Swap Payment is due, by causing the Trustee to pay to the

Swap Counterparty, a fixed or variable swap rate on such notional amount. The payment obligations of the Foundation and the Swap Counterparty to each other will be netted on each Interest Payment Date or other date upon which such payments are due and only one payment will be made by one party to the other. See "SECURITY FOR THE NOTES -- Swap Agreements".

Other Obligations.....

The Foundation may, from time to time, issue Obligations, other than the Notes, upon the satisfaction of certain conditions under the Indenture. See "THE NOTES -- Additional Notes and Other Obligations".

OFFERING MEMORANDUM RELATING TO
EDUCATION SERVICES FOUNDATION
STUDENT LOAN ASSET-BACKED NOTES, SERIES 1996

INTRODUCTION

The purpose of this Offering Memorandum, including the cover page and the Appendices attached hereto, is to provide information in connection with the offering and sale of an authorized maximum aggregate principal amount of \$113,000,000 Student Loan Asset-Backed Notes, Series 1996 (the "Notes"), of Education Services Foundation (the "Foundation"). The Notes are issued under the Trust Indenture, dated as of October 1, 1996 (as supplemented by the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture, each to be dated as of July 31, 1998, the "Indenture"), and as hereafter supplemented by and between the Foundation and Trustmark National Bank, as trustee (the "Trustee"). All capitalized terms used herein and not otherwise defined herein or under APPENDIX A, "DEFINITIONS OF CERTAIN TERMS" have the meanings set forth in the Indenture.

Proceeds of the Notes are used by the Foundation (i) to acquire or refinance Student Loans that are or will constitute Eligible Loans originated under the Federal Family Education Loan Program, (ii) to make or acquire Consolidation Loans under the Federal Family Education Loan Program, (iii) to fund a Reserve Subaccount, and (iv) to pay Costs of Issuance, Administrative Expenses and Note Fees.

The Notes are special obligations of the Foundation payable solely from the Trust Estate created by the Indenture. See "SECURITY FOR THE NOTES".

The Foundation, as purchaser, has entered or will enter into Student Loan Purchase Agreements (each a "Purchase Agreement"). Pursuant to a Purchase Agreement, a seller will sell all of its right, title and interest in certain Student Loans subject to such Purchase Agreement to the Foundation. Upon payment for such Loans with the proceeds of the Notes or other moneys held in the Trust Estate, such Student Loans will be conveyed to the Trustee who shall take all actions necessary in order to hold legal title to such Student Loans on behalf of the Foundation. See "THE STUDENT LOAN PURCHASE PROGRAM --General". Proceeds of the Notes may also be used to refinance Student Loans previously acquired by the Foundation pursuant to Purchase Agreements or as a result of origination by the Foundation.

The descriptions and summaries of the Higher Education Act, as amended (the "Act"), the Federal Family Education Loan Program, the Notes, the Indenture, the Guarantee Agreements, the Swap Agreements, the Purchase Agreements, the Servicing Agreements and the other statutes, regulations and documents included in this Offering Memorandum and the Appendices hereto do not purport to be comprehensive or definitive, and are qualified in their entirety by reference to each such statute, regulation or document. Copies of the Indenture may be obtained from the Foundation upon written request mailed or telecopied to Education Services Foundation, P.O. Box 5008, 2600 Lakeland Terrace, Jackson, Mississippi 39296, Attention: Controller; telecopy: (601) 987-0234.

THE FOUNDATION

Organization and Powers

The Foundation was established on March 24, 1995 by persons who were, at the time, serving as the Board of Directors of Mississippi Higher Education Assistance Corporation (the "Corporation"). The Foundation was established under Title 79, Chapter 11, Mississippi Code of 1972, as amended, of the State of Mississippi (the "State") as a nonprofit corporation to engage in a variety of activities intended to increase the level of appropriate

quality education in the State and elsewhere. These activities relate primarily to education finance and to activities designed to increase the knowledge that parents and students have concerning the means necessary to achieve appropriate quality education. The Foundation also conducts a secondary market for student loans under the Federal Family Education Loan Program described in APPENDIX C, "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

The Foundation has received an Internal Revenue Service ("IRS") determination letter to the effect that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The Foundation has also received an advance ruling for a period ending on December 31, 1999, from the IRS that the Foundation can reasonably be expected to be a publicly supported organization described in Section 509(a) of the Internal Revenue Code. If it is determined that the Foundation is not an organization described in Section 509(a) of the Internal Revenue Code, the Foundation would be treated as a private foundation for future periods. Also, if the Foundation is classified as a private foundation, the Foundation will be treated as a private foundation from the date of its inception for purposes of Sections 507(d) and 4940 of the Internal Revenue Code.

The Foundation currently provides a variety of services. These services include college access planning, a toll-free financial aid telephone hotline (800-362-1304), an electronic funds transfer network and an Internet home page (<http://www.esfweb.com>). The college access planning program is designed to help high school students assess their abilities, consider career possibilities, investigate school choices and finance their college education. The telephone hotline is intended to provide information to borrowers and prospective borrowers that will facilitate repayment of student loans by borrowers and minimize excessive borrowing by prospective borrowers. The electronic funds transfer network is used by lenders, schools, the Corporation and the Foundation to facilitate the transfer of funds from lenders to schools and borrowers and the ultimate acquisition of the loans by the Corporation or the Foundation. The purpose of the Internet home page is to provide information relating to, among other things, the application process for acquiring student loans, the associated costs, and default prevention techniques.

The Foundation began management of the Corporation as of May 1, 1997, pursuant to a management services agreement. In addition, the Foundation has acquired all or substantially all of the operating assets of the Corporation (not including student loans), pursuant to an asset purchase agreement, dated as of April 11, 1997, for an amount based on their appraised fair market value. In connection with the transfer of such assets, all the former employees of the Corporation were employed by the Foundation to manage the Corporation and administer its student loan secondary market activities. The Corporation pays a fair and reasonable management fee to the Foundation for such services.

Since 1982, the Corporation has conducted a secondary market for Student Loans for Lenders throughout the State, including banks, savings and loans associations, credit unions and certain schools. The Corporation encourages Lender participation in the Program through the use of telephone calls, letters and meetings with Lenders, participation in financial aid officers' meetings and other conferences, and through the use of promotional materials. The objective of the Corporation's plan is to attract new Lenders and to encourage the continued participation of Lenders who already sell Student Loans to the Corporation by providing superior service and assistance to Lenders currently participating and by informing other Lenders of the Program. As of June 30, 1998, the Corporation had acquired a total of approximately \$692,332,438 principal amount of Student Loans, and as of that date, the Corporation held a total of approximately \$354,855,000 unpaid principal amount of Student Loans and had outstanding approximately \$519,290,000 in principal amount of Student Loan bonds.

It is anticipated that the Foundation will commence additional activities related to its stated educational purpose. Such activities of the Foundation are expected to include serving as the single non-profit private agency student loan lender for the State (if so designated by the Governor of the State) which also would allow the Foundation to act as a Student Loan lender of last resort for the State, developing and administering other student loan finance programs, providing services to assist financial aid and related offices to operate more effectively and take full advantage of state and federal financial aid programs, providing student loan origination and in-school student loan servicing, providing scholarships to students to assist them in financing their post-

secondary education, providing grants to schools to assist them in providing financial aid to students, and providing other needed charitable activities related to educational financial aid.

The Foundation's Articles of Incorporation and Bylaws provide, among other things, that the Foundation is organized exclusively for charitable and educational purposes, including, for such purposes, the making of distributions to organizations that qualify as exempt organizations under Section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code. In the event of dissolution of the Foundation, the assets of the Foundation shall be distributed for one or more exempt purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code, or the corresponding section of any future federal tax code, or shall be distributed to the federal government, or to a state or local government, for a public purpose. Any such asset not so disposed of shall be disposed of by the chancery court of the county in which the principal office of the Foundation is then located, exclusively for such purposes or to such organization or organizations, as said court shall determine, which are organized and operated exclusively for such purposes.

The Trustee and the Secretary of Education entered into the Contract of Insurance on August 12, 1982, and the Trustee was at that time issued an Eligible Lender identification number by the Secretary of Education. The Trustee and United Student Aid Funds, Inc. ("USAF") entered into the Guarantee Agreement dated October 17, 1994.*

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* The Mississippi Guarantee Student Loan Agency ("MGSLA") was the principal guarantor for the State until October 1, 1994, at which time USAF was designated to be the principal guarantor for the State by the Governor of the State. Pursuant to an agreement between MGSLA and USAF, USAF has agreed to fully assume and perform all of the obligations of MGSLA under the Guarantee Agreement between MGSLA and the Trustee. Neither the Foundation nor the Trustee has released MGSLA from its obligations under the Guarantee Agreement between MGSLA and the Trustee.

Officers, Directors and Staff

The following are the officers and directors of the Foundation:

<u>Name and Positions Held</u>	<u>Principal Occupation</u>
Tom B. Scott, Jr. President and Director	Attorney, Scott & Scott
Jack L. Woodward Vice President and Director	Dean of Student Aid Financial Planning, Millsaps College
J.C. Whitehead Secretary, Treasurer and Director	Chairman, Emeritus, Bank of Mississippi
Vernetta P. Fairley Director	Director of Special Projects, National Association of Financial Aid Administrators
J. Herman Hines Director	Retired Chairman and Chief Executive Officer, Deposit Guaranty National Bank
Alvis T. Hunt Director	Vice-Chairman Emeritus Trustmark National Bank
William M. Jones Director	Retired Senior Vice President, Deposit Guaranty National Bank
Kenneth L. Smith, Jr. Executive Director	Executive Director of the Foundation

The officers of the Foundation are elected by the Board of Directors. The Foundation has no members and the members of the Board of Directors are authorized to elect their successors. All of the officers and six of the directors of the Foundation also serve as officers and directors of the Corporation. The Corporation has one director who does not serve as a director of the Foundation.

Prior to May 1, 1997, the Foundation had no full-time staff members, but as of that date, the staff members of the Corporation, who previously performed the duties necessary to administer the programs of the Foundation, were transferred to the Foundation in connection with the asset purchase agreement between the Corporation and the Foundation. The Foundation currently employs a full-time staff consisting of 18 members, including administrative, marketing, program development, finance, accounting, auditing, computer, academic planning and default prevention staff. Kenneth L. Smith, Jr. has served as the Executive Director of the Foundation since its incorporation in March of 1995. Mr. Smith has also served as Executive Director of the Corporation since May of 1990. Prior to taking the position of Executive Director of the Corporation, Mr. Smith had served as the Corporation's Director of Finance and Administration since 1987. Prior to joining the Corporation, he served as Vice President of Finance with Prison Fellowship in Washington, D.C., a nonprofit corporation and international Christian ministry to prison inmates and their families from 1980-1986; a partner in a CPA firm in Covington, Louisiana, from 1977-1980; Director of Audit at First Commerce Corporation in New Orleans, Louisiana from 1974-1977; controller of a natural gas and transmission and storage company in New Orleans, Louisiana from 1972-1974; and with Arthur Andersen & Co., an international public accounting firm, in the Houston, Texas office from 1964-1972, except for a two-year leave for service in the U.S. Army. Mr. Smith holds a B.S. degree in Accounting from Mississippi State University.

The Foundation's mailing address is Education Services Foundation, 2600 Lakeland Terrace, Jackson, Mississippi 39216, and its telephone number is (601) 981-9425. The Foundation will provide without charge to any Noteholder, upon written request of such Noteholder, copies of its audited financial statements.

Outstanding Student Loans and Asset-Backed Obligations

The Foundation has previously issued the Outstanding Notes in an aggregate principal amount of \$60,000,000. For additional information about the aggregate principal amount of the Outstanding Notes, see the cover page of the supplement attached hereto. As of June 30, 1998, approximately \$102,568,824 aggregate principal amount of Student Loans have been acquired with the proceeds of such Notes and other financing arrangements, including borrowings under the Line of Credit described below under "THE STUDENT LOAN PURCHASE PROGRAM."

Future Financings of the Foundation

The Foundation plans to utilize the Line of Credit, as needed, to purchase Student Loans. The Foundation is of the opinion that, subject to Rating Agency approval, Additional Notes can be issued to purchase Student Loans from, and acquired through, the Line of Credit to decrease the outstanding balance on the Line of Credit with the proceeds of such Notes.

THE STUDENT LOAN PURCHASE PROGRAM

Since 1996, the Foundation has conducted a secondary market for student loans which is designed to complement the secondary market operated by the Corporation. Pursuant to a trust indenture dated as of August 6, 1997, among the Foundation, Trustmark National Bank, as trustee ("Trustmark") and a financial institution, the Foundation obtained a \$50,000,000 line of credit with the financial institution (the "Line of Credit") for the purchase of Eligible Loans. The Foundation is not an Eligible Lender under the Act, and, therefore, Trustmark, as the Trustee is the holder of the Student Loans Financed by the Foundation. Financed Student Loans are pledged and assigned to the Trustee, which is an Eligible Lender, and which holds the Pledged Student Loans in trust on behalf of the Foundation.

Description of Student Loans To Be Financed

The Foundation expects to expend the proceeds of the Notes to acquire or refinance Student Loans bearing the maximum variable rate of interest permitted by the Act. The Foundation expects to acquire additional Student Loans with payments to be received from borrowers, the Guarantee Agency, Other Qualified Guarantors or the Secretary of Education with respect to Pledged Student Loans.

The Pledged Student Loans consist of Student Loans for which the beneficiary is in school, has commenced repayment of principal on a loan or is in a grace period or a deferment period with respect to repayment. Borrowers (other than borrowers of PLUS/SLS Loans) are required to begin repaying Student Loans after the six- to twelve-month grace period following termination of at least half-time school enrollment; in addition, repayment may be delayed during any deferment or forbearance period occurring after termination of the grace period. Borrowers of PLUS/SLS Loans must begin repayment of principal within 60 days after disbursement by a Lender subject to certain deferral provisions. Borrowers of unsubsidized Stafford Loans are required to begin repaying principal after the six month grace period following termination of at least half-time school enrollment. Interest on unsubsidized Stafford Loans for which payments are not required during the in-school or grace periods or during deferment shall be paid by the borrower monthly or quarterly or capitalized not more frequently than quarterly by the lender.

Summary Of Purchase Agreements

The Purchase Agreements relating to the sale of Student Loans to the Foundation have provided or will provide that the Foundation will purchase Student Loans at a price agreed to between the seller and the

Foundation, including accrued uncapitalized borrower interest, if any, on the loan purchase date. All Purchase Agreements (including Purchase Agreements as amended from time to time) have included or will include representations and warranties that all Student Loans purchased pursuant thereto are and will be Eligible Loans, and have required or will require that the Lender repurchase any Student Loan purchased by the Foundation thereunder, upon the request of the Foundation or its successors and assigns, if (a) any representation or warranty made or furnished by the Lender in or pursuant to such Purchase Agreement shall prove to have been materially incorrect as to such Student Loan; (b) the Secretary of Education or the Guarantee Agency, as the case may be, refuses to honor all or part of a claim filed with respect to such Student Loan (including any claim for Interest Benefit Payments, Special Allowance Payments, or reinsurance or guarantee payments) on account of any circumstance or event that occurred prior to the sale of such Student Loan to the Foundation; or (c) the Foundation rejects a Student Loan pursuant to the terms of such Purchase Agreement because such Student Loan does not constitute an Eligible Loan.

Servicing and Due Diligence

The Foundation has entered into a Servicing Agreement with each of UNIPAC Service Corporation ("UNIPAC") and SunTech, Inc. ("SunTech") for the purpose of servicing its Student Loans, including the Pledged Student Loans. The term of the Servicing Agreement with UNIPAC is scheduled to expire on August 1, 1999. The term of the Servicing Agreement with SunTech is scheduled to expire on October 31, 2002.

UNIPAC, a Nebraska corporation with its principal servicing operations located in Aurora, Colorado, is the Foundation's primary servicer, but SunTech, a Mississippi business corporation, also services a portion of the Student Loans acquired through the Notes. UNIPAC and SunTech have available to them the systems and services to enable them to process and service the Student Loans in accordance with the requirements of the Act. Under the Servicing Agreements, UNIPAC and SunTech services include providing statistical information to the Secretary of Education to ensure payment of interest benefit and special allowance payments, contacting borrowers in repayment, collecting payments, performing due diligence, and providing student loan origination services for certain lenders. Based on the Foundation's review of audits and reports regarding the servicing operations of UNIPAC and SunTech, the Foundation believes that UNIPAC and SunTech are substantially in compliance with the servicing requirements of the Act.

The Act requires that "due diligence" be exercised in the making, servicing and collection of Pledged Student Loans. The Act defines "due diligence" to require the holder of a Student Loan to utilize origination, servicing, and collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans. Additionally, the Act provides certain minimum standards for due diligence procedures.

The Act sets out procedures for establishing due diligence under the FISL Program and requires the Secretary of Education to disqualify an "eligible lender" (which could include the Trustee as a holder of Student Loans) from further Insurance if the Secretary of Education is not satisfied that the due diligence standard will be met. If the Foundation or either UNIPAC or SunTech, as servicer, or any other servicer, fails to meet such standards, the Trustee could be disqualified as an eligible lender and its ability to realize the benefits of Insurance may be adversely affected. The Trustee's responsibilities with respect to servicing Pledged Student Loans are limited under the Indenture. See "THE INDENTURE -- Certain Covenants -- Trustee's Duties to Monitor Servicing".

The Act also requires that a "Guarantor" as defined in Section 435(j) of the Act ensure that due diligence is exercised by Lenders in making, servicing and collecting Student Loans guaranteed by such guarantee agency and that due diligence be exercised by the guarantee agency in collecting Student Loans which it holds. United Student Aid Funds, Inc. ("USAF") currently serves as the primary guarantor for Student Loans financed by the Foundation; however, under the terms of the Indenture, the Foundation may acquire Student Loans guaranteed by Other Qualified Guarantors. Currently, Tennessee Student Assistance Corporation ("TSAC") and Louisiana Student Financial Assistance Corporation ("LSFAC") are the Foundation's only Other Qualified Guarantors. USAF and the Foundation's Other Qualified Guarantors have established procedures and standards for due diligence to be exercised by Lenders which hold Student Loans that are guaranteed by USAF and such Other Qualified Guarantors,

respectively. If the Foundation or UNIPAC or SunTech, as servicers, or any other servicer, does not comply with the due diligence standards established by USAF or any Other Qualified Guarantor, as the case may be, then the Trustee's ability to realize the benefits of Guarantee payments and the ability of USAF or any Other Qualified Guarantor to realize the benefits of federal reinsurance payments may be adversely affected.

Under the Indenture, the Foundation is permitted to engage additional Servicers and to replace Servicers, so long as the Servicers are selected by the Foundation in a competent, diligent and orderly fashion and in accordance with all requirements of the Act, the Secretary of Education, applicable regulations of guarantee agencies and the Indenture.

Year 2000 Compliance

The Foundation has instituted a review of its computer based systems and applications to ensure proper functioning in the year 2000. Foundation management is in the process of testing its systems, and anticipates that implementation of necessary changes will be complete by December 31, 1998. The Foundation does not believe that any required changes to its systems and applications will materially affect the Foundation's operations in the future. The Foundation does not expect the costs of achieving Year 2000 compliance to have a material adverse effect on the Foundation's financial statements.

The servicers for the Foundation have also addressed the Year 2000 problem. SunTech has adopted a plan to achieve Year 2000 compliance with respect to its systems and applications. SunTech anticipates the completion of changes to its systems and applications by September 30, 1998. The Foundation plans to engage consultants to review SunTech's Year 2000 plan upon completion. SunTech management does not think that its operations will be materially affected. UNIPAC has represented to the Foundation that it has completed its Year 2000 review of its systems and applications and that UNIPAC reasonably believes it is Year 2000 compliant.

The Trustee has established a task-force to review all computer-based systems and applications and develop an action plan to ensure that its computer and information systems will function properly in the year 2000. This plan, which has been approved by the Board of Directors and management of the Trustee, includes the Trustee's approach to having all systems and applications changed for the year 2000 by December 31, 1998 with final testing to take place during 1999. At this time, management believes that implementation of its year 2000 action plan will not materially affect the Trustee's operations in the future. However, the Trustee could possibly be affected by the unsuccessful attempt of other entities in addressing this issue. The Trustee's management does not expect the costs of achieving year 2000 compliance to have a material effect on the Trustee's consolidated financial statements.

No representation is made with respect to whether other entities involved with the Foundation's Program are or will be Year 2000 compliant. Such entities include, among others, the Department of Education, USAF, and Other Qualified Guarantors. Failure of any such entities to be Year 2000 compliant could have a material adverse effect upon such entities, the Foundation, the Program, and the Noteholders.

THE GUARANTEE PROGRAM

Under the terms of the Indenture, the Guarantee Program, pursuant to which Student Loans acquired by the Foundation are guaranteed, includes USAF's student loan insurance program and, at any time that Pledged Student Loans are guaranteed by any Other Qualified Guarantor, such similar program of such Other Qualified Guarantor. The Foundation may, from time to time, negotiate with prospective Other Qualified Guarantors who may in the future guarantee Student Loans acquired by the Foundation. For the benefit of the Foundation, the Trustee has entered into Guarantee Agreements with TSAC and LSFAC as Other Qualified Guarantors, however, the Foundation currently does not anticipate that a material amount of Student Loans will be guaranteed by any Other Qualified Guarantor.

The information contained in this Offering Memorandum relating to USAF has been supplied by USAF for inclusion in this Offering Memorandum. Such information is not guaranteed as to accuracy or

completeness by the Foundation or the Underwriter and is not to be construed as a representation by the Foundation or the Underwriter. Neither the Foundation nor the Underwriter has independently verified this information. No representation is made by the Foundation or the Underwriter as to the accuracy or adequacy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

General

For the purpose of providing loan guarantees under the Act, each Guarantor has entered into various agreements with the Secretary (collectively, the "Federal Reinsurance Agreements"). Pursuant to the Federal Reinsurance Agreements, each Guarantor serves as a "guarantee agency," as defined in Section 435(j) of the Act. The Federal Reinsurance Agreements may be terminated by the Secretary for cause upon sixty (60) days written notice to the respective Guarantor. Under the terms of the Federal Reinsurance Agreements, reinsurance is paid to a Guarantor by the Secretary in accordance with a formula based on the annual default rate of loans guaranteed by a Guarantor under the Act, and ranges from 78% to 100% of the amount guaranteed by a Guarantor .

It should be noted that under the Student Loan Reform Act of 1993, which became effective August 10, 1993, the Secretary, at the Secretary's discretion, is permitted to terminate agreements into which a Guarantor has entered upon thirty (30) days' notice. The Student Loan Reform Act of 1993 further provides for reinsurance coverage on defaults ranging from 98% to 78% of the loan amount guaranteed by such Guarantor based upon the annual default rate of loans guaranteed by the Guarantor. USAF has not received information on the effect, if any, that this provision will have on its Federal Reinsurance Agreements given the above legislative changes.

The Student Loan Reform Act of 1993 further provides that the reserve funds of a guarantor are to be considered the property of the United States. Under such provision the Secretary of Education may determine that the return of such reserve funds to the United States is in the best interest of the Federal Family Education Loan Program. USAF has not received information from the Secretary on the effect, if any, that this provision will have on its reserve funds.

A Guarantor is entitled to receive reinsurance payments of between 78% and 100%, depending on, among other things, the reinsurance claims rate experience of the Guarantor. See APPENDIX C, "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM". A Guarantor's "claims rate" represents the percentage of federal reinsurance claims paid by the Department of Education to such Guarantor Agency during any fiscal year relative to such Guarantor's existing portfolio of loans in repayment at the end of the prior fiscal year.

United Student Aid Funds, Inc.

United Student Aid Funds, Inc. (herein referred to as the "Guarantee Agency") was organized as a private, non-profit corporation under the General Corporation Law of the State of Delaware in 1960. In accordance with its Certificate of Incorporation, the Guarantee Agency (i) maintains facilities for the provision of guarantee services with respect to approved education loans made to or for the benefit of eligible students who are enrolled at or plan to attend approved educational institutions; (ii) guarantees education loans made pursuant to the Higher Education Act loan programs as well as loans made under private loan programs; and (iii) serves pursuant to designation by the state or territory as guarantor for the education loan programs of Alaska, Arizona, Hawaii, Indiana, Kansas, Maryland, Mississippi, Nevada, Wyoming, and certain Pacific Islands.

In addition to the above identified activities, the Guarantee Agency is affiliated with USA Group Guarantee Services, Inc. (formerly known as USA Services, Inc.), a Delaware private, non-profit corporation, which provides varying degrees of services to the following guarantee agencies: Student Loan Guarantee Foundation of Arkansas, Delaware Higher Education Loan Program, Iowa College Student Aid Commission, Louisiana Office of Student Financial Assistance, Maine Education Assistance Division, Michigan Guaranty Agency, Montana Guaranteed Student Loan Program, Oklahoma Guaranteed Student Loan Program, Oregon State Scholarship

Commission and Rhode Island Higher Education Assistance Authority. Certain trustees and officers of the Guarantee Agency are also trustees or officers of USA Group Guarantee Services, Inc.

The Guarantee Agency is also affiliated with USA Group Loan Services, Inc. (formerly known as Education Loan Servicing Center, Inc.). USA Group Loan Services, Inc. was organized under the laws of the State of Delaware in 1982 as a private, non-profit, non-stock membership corporation to provide conversion services, data processing, and other assistance necessary in connection with the acquisition and servicing of education loans by primary lenders and secondary markets. Certain trustees and officers of the Guarantee Agency are also trustees or officers of USA Group Loan Services, Inc.

For the purpose of providing loan guarantees under the Higher Education Act, the Guarantee Agency has entered into various agreements with the Secretary (collectively, the "USAF Federal Reinsurance Agreements"). Pursuant to the USAF Federal Reinsurance Agreements, the Guarantee Agency serves as a "guaranty agency" as defined in Section 435(j) of the Higher Education Act. The USAF Federal Reinsurance Agreements may be terminated by the Secretary for cause upon sixty (60) days written notice to the Guarantee Agency. Under the terms of the USAF Federal Reinsurance Agreements, reinsurance is paid to the Guarantee Agency by the Secretary in accordance with a formula based on the annual default rate of loans guaranteed by the Guarantee Agency under the Higher Education Act, and ranges from 78% to 100% of the amount guaranteed by the Guarantee Agency.

It should be noted that under the Student Loan Reform Act of 1993, which became effective August 10, 1993, the Secretary, at the Secretary's discretion, is permitted to terminate agreements into which a guarantor has entered upon thirty (30) days' notice. The Student Loan Reform Act of 1993 further provides for guarantee coverage on defaults ranging from 98% to 78% of the loan amount guaranteed by the Guarantee Agency based upon the annual default rate of loans guaranteed by the Guarantee Agency.

The Student Loan Reform Act of 1993 further provides that the reserve funds of a guarantor are to be considered the property of the United States. Under such provision the Secretary of Education may determine that the return of such reserve funds to the United States is in the best interest of the Federal Family Education Loan Program.

As of September 30, 1997, the Guarantee Agency had total assets of approximately \$658 million; guarantee deposits, advance funds, allowance for future defaults and deferred revenue of approximately \$287 million; and a fund balance of approximately \$292 million. Through September 30, 1997, the outstanding, unpaid, aggregate amount of principal and interest on loans which had been directly guaranteed by the Guarantee Agency was approximately \$33.2 billion.

The Guarantee Agency is and has been in compliance with all provisions of the Higher Education Act which require each guaranty agency to maintain a reserve fund of assets in an amount equal to or greater than a percentage of outstanding loans guaranteed by the agency.

The Guarantee Agency is entitled to receive reinsurance payments of between 78% and 100%, depending on, among other things, the reinsurance claims rate experience of the Guarantee Agency. See APPENDIX C, "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM". The Guarantee Agency's "claims rate" represents the percentage of federal reinsurance claims paid by the Department of Education to the Guarantee Agency during any fiscal year relative to the Guarantee Agency's existing portfolio of loans in repayment at the end of the prior fiscal year. For the last five fiscal years, the Guarantee Agency's "claims rate" (excluding Arizona, Hawaii and certain Pacific Islands) for the fiscal years ended 1993 through 1996 was as follows:

<u>Years Ending September 30</u>	<u>Claims Rate</u>
1997	4.65%
1996	4.65%
1995	4.69%
1994	4.99%
1993	6.89%

The following table sets forth the percentage of the Guarantee Agency's 2-year, 4-year and proprietary school loans based on original principal amounts as of September 30, 1997:

<u>Type</u>	<u>Loans Outstanding (in thousands)</u>	<u>Percentage</u>
Two-year	\$1,204,964	3.63%
Four-year	28,003,577	84.26%
Proprietary	<u>4,025,711</u>	<u>12.11%</u>
Total	\$33,234,252	100.00%

As of September 30, 1997, the Guarantee Agency employs approximately 257 persons and is headquartered in Indianapolis, Indiana. The Guarantee Agency will provide a copy of its most recent annual report upon receipt of a written request directed to its headquarters at 30 South Meridian Street, Indianapolis, Indiana 46204, Attention: Vice President, Corporate Communications.

The above information relating to USAF has been obtained from USAF and is not guaranteed as to accuracy or completeness by the Foundation, the Underwriter or its counsel and is not to be construed as a representation by the Foundation, the Underwriter or its counsel.

THE NOTES

General

Upon effectiveness of the Supplement, the Indenture will authorize the issuance from time to time of up to \$113,000,000 principal amount of Student Loan Asset-Backed Notes, Series 1996 (the "Notes"). The Indenture permits the issuance of additional Series of Obligations under a Supplemental Indenture upon the satisfaction of certain conditions under the Indenture. No such Obligations are Outstanding as of the date hereof. See "Additional Notes and Other Obligations" hereunder.

The Notes

Notes have been and may be issued from time to time as Auction Rate Securities in aggregate principal amounts as determined at the time of issuance by the Foundation up to a maximum aggregate principal amount of \$113,000,000. As long as there are Outstanding Notes, Additional Notes may be issued only with the written consent of the Insurer and upon the satisfaction of the conditions described under "THE NOTES - Notes and Other Obligations". Notes are issued in Minimum Authorized Denominations of \$100,000 and Authorized Denominations of \$100,000 or integral multiples thereof. The Notes are in fully registered form, dated October 31, 1996, the date of the issuance of the Initial Notes, without coupons, and are registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which acts as securities depository. Individual purchases of the Notes are made in Book-entry Form only and only in Authorized Denominations (\$100,000 or integral multiples thereof). Purchasers of the Notes do not receive certificates representing their interest in the Notes purchased.

During each Auction Period, the Notes, including the portion of the Notes, if any, being issued for such Auction Period, bear interest determined pursuant to the Auction Procedures described in "APPENDIX E, AUCTION PROCEDURES" on the Auction Rate Determination Date for each such Auction Period commencing on the Auction Rate Adjustment Date for such Auction Period and continuing through and including the day immediately preceding the next succeeding Auction Rate Adjustment Date. For each such Auction Period, the Notes bear interest at the lesser of the Auction Rate, determined pursuant to such Auction Procedures, and the Net Loan Rate, subject to the Interest Rate Limitation for the Notes of 16%. See also "Interest Rates on Notes" below. The Auction Rate for the Notes is generally based upon a 28-day Auction Period, subject to adjustment pursuant to an Auction Period Adjustment as described herein. Until Conversion or an Auction Period Adjustment, the Auction Rate Adjustment Date will be every fourth Monday; provided however, that if any such Monday is not a Business Day, then the first Business Day following such Monday, as the same may be adjusted as described in "APPENDIX E, AUCTION PROCEDURES--Changes in Auction Terms".

The Net Loan Rate with respect to the Notes is the Applicable United States Treasury Security Rate plus 1.50%, subject to the Interest Rate Limitation. The Applicable United States Treasury Security Rate is (i) for Auction Periods of 180 days or less, the rate of the 91-day United States Treasury Bill and (ii) for Auction Periods greater than 180 days, the rate of the one-year United States Treasury Bill. The All Hold Rate with respect to the Notes is 80% of the Applicable LIBOR-Based Rate, subject to the Interest Rate Limitation. "Applicable LIBOR-Based Rate" means, (a) for Auction Periods of 35 days or less, One-Month LIBOR, (b) for Auction Periods of more than 35 days but less than 91 days, Three-Month LIBOR, (c) for Auction Periods of more than 90 days but less than 181 days, Six-Month LIBOR, and (d) for Auction Periods of more than 180 days, One-Year LIBOR. The Maximum Auction Rate with respect to the Notes is the least of (a) either (i) the Applicable LIBOR-Based Rate plus 1.50% (if both of the ratings assigned by Moody's and Fitch to the Notes are in the second highest General Rating Category or better) or (ii) the Applicable LIBOR-Based Rate plus 2.50% (if any one of the ratings assigned by Moody's and Fitch to the Notes is less than the second highest General Rating Category), (b) 16%, and (c) the highest rate the Foundation may legally pay, from time to time as interest on the Notes. The Non-Payment Rate with respect to the Notes is the Applicable LIBOR-Based Rate plus 1.50%. See -THE NOTES--Interest Rates on the Notes--Auction Rate Securities".

All Notes mature on October 1, 2026 (the "Maturity Date").

Until Conversion, the Notes are subject to redemption in whole or in part on any Interest Payment Date prior to the Maturity Date, at the option of the Foundation and with the prior written consent of the Insurer, upon notice given by the Trustee not less than fifteen (15) nor more than sixty (60) days prior to such Redemption Date at a redemption price of 100% of the principal amount redeemed plus accrued interest to the Redemption Date, plus accrued unpaid Carry-over Amounts to the redemption date. See "REDEMPTION-Optional Redemption Prior to Maturity".

The Notes are subject to mandatory redemption prior to their Maturity Date in part or in whole from moneys deposited to the Redemption Subaccount on the next Auction Rate Adjustment Date following any such deposit for which notice of redemption may be given in accordance with the Indenture. See "REDEMPTION-Mandatory Redemption Prior to Maturity".

Payments of Principal and Interest

The principal of each Obligation, including each Outstanding Note, together with interest payable on such Obligation at the maturity thereof, if the date of such maturity is not a regularly scheduled Interest Payment Date, shall be payable to the Holder thereof as of 5:00 P.M. in the city in which the Principal Office of the Trustee is located on the applicable Record Date, upon presentation and surrender of the Obligation to the Trustee, at the Principal Office of the Trustee, by check or draft drawn upon the Trustee or, if requested by the Holder of Obligations in the aggregate principal amount of \$1,000,000 or more (or, if less, all Outstanding Obligations) before the applicable Record Date, by electronic transfer by the Trustee in immediately available funds to such account as shall be designated by such Holder. Payment of interest on any Obligation (other than interest payable on such

Obligation at the maturity thereof, if the date of such maturity is not a regularly scheduled Interest Payment Date) shall be made to the Person who is the Holder thereof at 5:00 P.M. in the city in which the Principal Office of the Trustee is located on the Record Date for such Interest Payment Date, by check or draft drawn upon the Trustee and mailed by the Trustee to the Holder at his address as it appears on the Note Register or, if requested by the Holder of Obligations in the aggregate principal amount of \$1,000,000 or more (or, if less, all Outstanding Obligations) before the applicable Record Date, by electronic transfer by the Trustee in immediately available funds to such account as shall be designated by such Holder. Any principal or interest not so timely paid or duly provided for shall cease to be payable to the Person who is the Holder thereof at 5:00 P.M. on the Record Date and shall be payable to the Person who is the Holder thereof at the close of business on a special record date for the payment of any such defaulted interest, with such special record date to be fixed by the Trustee whenever moneys become available for payment of the defaulted interest, and with notice of the special record date to be given to the Holders of the affected Obligations not less than two days prior thereto by first class mail to each such Holder as shown on the Note Register on a date selected by the Trustee, stating the date of the special record date and the date fixed for the payment of such defaulted interest. All payments of principal of and interest on the Obligations shall be made in lawful money of the United States of America.

Registration, Transfer and Exchange

The Foundation has caused a Note Register to be kept at the Principal Office of the Trustee in which, subject to such reasonable regulations as the Trustee may prescribe, the Foundation provides for the registration of Obligations and for transfer of Obligations as herein provided. At reasonable times and under reasonable regulations established by the Authenticating Agent, the Note Register may be inspected and copied by the Foundation, the Insurer or by the Holders (or a designated representative thereof) of ten percent (10%) or more in principal amount of Obligations then Outstanding.

The following provisions regarding transfer and exchange are not exercisable by the Beneficial Owners unless the Obligations are no longer held in a Book-entry System.

Upon surrender for transfer or exchange of any Obligation at the Principal Office of the Authenticating Agent, the Foundation shall execute, and the Authenticating Agent shall authenticate and deliver, in the name of the designated transferee or transferees, or in exchange for the Obligation surrendered, one or more new fully registered Obligations of any Authorized Denomination of denominations, of like aggregate principal amount, having the same Stated Maturity and bearing numbers not previously assigned.

All Obligations executed, delivered and authenticated pursuant to the preceding paragraph shall be registered in the name of the Holder presenting the Obligation for exchange or the designated transferee, as the case may be, on the Note Register on the date of such transfer or exchange.

All Obligations surrendered upon any exchange or transfer provided for in the Indenture shall be promptly canceled and thereafter disposed of as directed by Foundation Order.

All Obligations issued upon any transfer or exchange of Obligations, whether or not surrendered, shall be the valid obligations of the Foundation evidencing the same debt, and entitled to the same security and benefits under the Indenture, as the Obligations surrendered upon such transfer or exchange or in lieu of which such Obligations were issued.

Every Obligation presented or surrendered for transfer or exchange shall be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Authenticating Agent, duly executed by the Holder thereof or his attorney duly authorized in writing, with signature guarantees satisfactory to the Authenticating Agent.

The Foundation may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Obligations. All other

expenses incurred by the Foundation or the Authenticating Agent in connection with any transfer or exchange of Obligations shall be paid by the Foundation.

The Foundation shall not be required to transfer any Obligation: (i) during a period beginning at the opening of business fifteen (15) days before any selection of Obligations for redemption and ending at the close of business on the day of such selection; or (ii) selected for redemption in whole or in part.

Book-entry System

Any Notes issued in Book-entry Form are subject to the provisions described below.

The Depository Trust Company ("DTC"), New York, New York acts as securities depository (the "Depository") for such Notes. Such Notes are issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate is issued for such Notes, in the aggregate principal amount of such Notes, and is deposited with DTC or its agent.

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

Purchases of such Notes under the DTC system must be made by or through Direct Participants, which receive a credit for such Notes on DTC's records. The ownership interest of each actual purchaser of each such Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase; 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 such Notes are accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners do not receive certificates representing their ownership interests in such Notes, except in the event that use of the Book-entry System for such Notes is discontinued.

To facilitate subsequent transfers, all such Notes deposited by Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of such 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 such Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices will be sent to Cede & Co. If less than all of the Notes subject to the Book-entry System are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to such Notes. Under its usual procedures, DTC mails an omnibus proxy to the Foundation 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 such Notes are credited on the record date (identified in a listing attached to the omnibus proxy).

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

DTC may discontinue providing its services as securities depository with respect to such Notes at any time by giving reasonable notice to the Foundation and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained or the Foundation fails to redeem all Outstanding Notes, note certificates are required to be printed and delivered.

The Foundation may decide to discontinue use of the Book-entry System transfers through DTC (or a successor Depository). In that event, note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's Book-entry System has been obtained from a report from DTC entitled "Sample Offering Document Language Describing Book-entry Only Issuance (Rev. 12/12/94)" and other sources that the Foundation believes to be reliable; but the Foundation and its counsel, the Underwriter and its counsel, and Note Counsel do not take any responsibility for the accuracy thereof.

NEITHER THE FOUNDATION NOR THE TRUSTEE HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO (1) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY PARTICIPANT, (2) 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 (OR ANY CARRY-OVER AMOUNT (AND INTEREST ACCRUED THEREON)) ON SUCH NOTES, (3) THE DELIVERY BY ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN TO NOTEHOLDERS, (4) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF NOTES, OR (5) ANY OTHER ACTION TAKEN BY DTC AS THE NOTEHOLDER.

In reading this Offering Memorandum, it should be understood that while any Notes are in the Book-entry System, (i) all rights of ownership must be exercised through DTC and the Book-entry System and (ii) notices that are to be given to Noteholders by the Foundation or the Trustee will be given only to DTC.

Interest Rates on the Notes

Auction Rate Securities. The Notes upon their issuance bear interest for each Interest Period, until their Conversion, if any, at the lesser of the Auction Rate and the Net Loan Rate, subject to the Interest Rate Limitation.

The Notes during each Auction Period until Conversion, if any, bear interest at the applicable per annum interest rate which will accrue daily and will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days.

The Interest Rate borne by the Notes for each Auction Period, until Conversion, if any, is determined as hereinafter described. Each such Auction Period will commence on the Auction Period Commencement Date and terminate on and include the day preceding the next Auction Period Commencement Date. As discussed above, the Interest Rate on the Notes for each Auction Period is, subject to the Interest Rate Limitation, the lesser of the Net Loan Rate for such Auction Period and the Auction Rate for such Auction Period as determined in accordance with the Auction Procedures described in "APPENDIX E, AUCTION PROCEDURES"; provided that if on any Auction Rate Determination Date, an Auction is not held for any reason, then the Interest Rate on such Notes for the next succeeding Auction Period will be the Maximum Rate on such Auction Rate Determination Date.

Notwithstanding the foregoing:

(a) if the ownership of Notes is no longer maintained in Book-entry Form, the Interest Rate on such Notes for any Interest Period commencing after the delivery of certificates representing such Notes will equal the Maximum Auction Rate on the Business Day immediately preceding the first day of the subsequent Interest Period; or

(b) if a Payment Default has occurred, the Interest Rate on the Notes for the Interest Period commencing on or immediately after such Payment Default and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two Business Days after which, such Payment Default is cured in accordance with the Indenture, will equal the Non-Payment Rate on the first day of each such Interest Period; or

(c) if a proposed Conversion has failed, as described below under the caption "THE NOTES - Conversion," the Interest Rate on the Notes subject to the failed Conversion will be equal to the Maximum Auction Rate as of the date of the failed Conversion for the Interest Period commencing on such date.

Except in the event of a Payment Default, the Interest Rate on the Notes shall never exceed the Interest Rate Limitation.

Pursuant to the Initial Auction Agent Agreement, the Auction Agent will promptly give written notice to the Trustee, the Insurer and the Foundation of the Interest Rate (unless the Interest Rate is the Non-Payment Rate, in which case the Trustee determines the Non-Payment Rate and give written notice thereof to the Foundation) and either the Auction Rate or the Net Loan Rate, as the case may be, when such rate is not the Interest Rate, applicable to the Notes. The Trustee will notify the Holders of Notes of the Interest Rate applicable to the Notes for each Auction Period no later than the second Business Day of such Auction Period.

Carry-over Amounts on the Notes

If the Auction Rate for an Interest Period is greater than the Net Loan Rate, then the Interest Rate applicable to the Notes for that Interest Period is the Net Loan Rate, subject to the Interest Rate Limitation. The excess of the amount of interest on the Notes that would have accrued at the Auction Rate over the amount of interest on the Notes actually accrued at the Net Loan Rate, together with the unpaid portion of any such excess from prior Interest Periods, as determined by the Trustee, accrues as Carry-over Amount. In such event, the Trustee determines the Carry-over Amount separately with respect to the Notes for such Interest Period. Such Carry-over Amount (including compounded interest thereon as described herein) bears interest at the rate equal to One-Month LIBOR (the "Carry-over Rate"), as determined on such Auction Rate Determination Date by the Auction Agent, provided that, if the Trustee has not received within two Business Days of the date such determination is to be made written notice of One-Month LIBOR from the Auction Agent, then as determined by the Trustee.

The interest rate on Carry-over Amounts with respect to any Notes to which the Net Loan Rate limitation applies is calculated on each Auction Rate Determination Date, adjusted on each Auction Rate Adjustment Date and, until paid, compounded on each Interest Payment Date from the Interest Payment Date for the Interest Period with respect to which such Carry-over Amount was calculated until paid.

Any reference to "principal" or "interest" herein does not include within the meaning of such words Carry-over Amount or any interest accrued on any such Carry-over Amount. All references to Carry-over Amount include the interest compounded thereon, which compounded interest bears interest at the Carry-over Rate and is calculated in the manner as for the original Carry-over Amount. All references to the payment of Carry-over Amount, unless otherwise specified, include payment of accrued interest thereon. Such Carry-over Amount is separately calculated for Notes by the Trustee during each Interest Period in sufficient time for the Trustee to give notice to each Holder of such Carry-over Amount as required in the following sentence. On the Interest Payment Date of Notes for an Interest Period with respect to which a Carry-over Amount has been calculated by the Trustee, the Trustee shall give written notice to each Holder of such Notes of the Carry-over Amount applicable to each such Auction Rate Security of such Holder, which written notice may either accompany the payment of interest by check made to each Holder on such Interest Payment Date or otherwise be mailed on such Interest Payment Date by first class mail, postage prepaid, to each Holder at such Holder's address as it appears on the registration books maintained by the Trustee. Such notice shall state, in addition to the Carry-over Amount that, unless and until such Auction Rate Security has been mandatorily redeemed or has been deemed no longer Outstanding under the Indenture (after which all accrued Carry-over Amount (and accrued interest thereon) that remains unpaid will be canceled and no Carry-over Amount will be paid with respect to such Auction Rate Security), (i) the Carry-over Amount with respect to such Auction Rate Security (and interest accrued thereon) will be paid by the Trustee in part or in whole on the earlier of (a) the Conversion Date or the date on which all or a portion of the Notes are optionally redeemed, if any, and if then so paid, will be paid in full with respect to all of the Notes, or (b) on the first occurring Interest Payment Date and on each succeeding Interest Payment Date until paid, for an Interest Period subsequent to the Interest Period in which such Carry-over Amount accrued, (1) if during such subsequent Interest Period no additional Carry-over Amount is accruing on the Notes, and (2) if so paid during such Interest Period, such Carry-over Amount is paid solely to the extent that (A) the amount of interest that would be payable on the Notes at the Net Loan Rate exceeds the amount of interest that is payable for such Interest Period on the Notes at the Interest Rate in effect for such Interest Period and (B) on such Interest Payment Date moneys are available in the Current Debt Service-Interest Subaccount pursuant to the terms of the Indenture in an amount sufficient, after making certain other transfers from the Income Subaccount to other Subaccounts and the Current Debt Service-Interest Subaccount for other purposes and satisfying other conditions, as provided in the Indenture, to pay all or such portion of Carry-over Amount equal to the excess calculated pursuant to the preceding item (2)(A) (or, in the event that moneys are not available in an amount sufficient to pay all such excess with respect to such Notes for which Carry-over Amount is to be paid, in an amount sufficient to pay any portion of such excess); and (ii) interest accrues on the Carry-over Amount at the Carry-over Rate until such Carry-over Amount is paid in full or is canceled. The Insurance Policy does not insure the payment of Carry-over Amounts.

The Carry-over Amount for Notes is paid by the Trustee on Outstanding Notes on the earlier of such first occurring optional Redemption Date or the Conversion Date and if then so paid, is paid in full, or the first occurring Interest Payment Date and each succeeding Interest Payment Date until paid for a subsequent Interest Period, if and to the extent that (i) during such subsequent Interest Period no additional Carry-over Amount is accruing on such Notes, (ii) and if paid during such Interest Period, such Carry-over Amount is payable solely to the extent that the amount of interest that would be payable on the Notes at the Net Loan Rate exceeds the amount of interest that is payable for such Interest Period at the Interest Rate in effect for such Interest Period and (iii) on such Interest Payment Date there are sufficient moneys in the Current Debt Service-Interest Subaccount, after making certain other transfers from the Income Subaccount to other Subaccounts and to the Current Debt Service-Interest Subaccount for the purposes described in the following clauses (A) and (B) to other Subaccounts and satisfying other conditions, as provided in the Indenture to pay first (A) all interest due on Notes on such Interest Payment Date and (B) the amount of any Swap Payment due on such Interest Payment Date and second a portion or all of the Carry-over Amount equal to the excess described in clause (ii) above (or, in the event moneys are not available in an amount sufficient to pay all such excess with respect to the Notes for which Carry-over Amount is to be paid, in

an amount sufficient to pay any portion of such excess). Any Carry-over Amount (and any interest accrued thereon) on any Note which is due and payable on an Interest Payment Date, which Note is to be mandatorily redeemed or deemed no longer Outstanding under the Indenture on said Interest Payment Date, will be paid to the Holder thereof on said Interest Payment Date to the extent that moneys are available therefor in accordance with the provisions of the Indenture; provided, however, that any Carry-over Amount (and any interest accrued thereon) which is not yet due and payable on such Interest Payment Date will be canceled with respect to such Note that is to be mandatorily redeemed or deemed no longer Outstanding under the Indenture on such Interest Payment Date and will not be paid on any succeeding Interest Payment Date. To the extent that any portion of the Carry-over Amount remains unpaid after payment of a portion thereof (except with respect to a Note that is no longer Outstanding or is no longer deemed Outstanding), such unpaid portion of the Carry-over Amount will be paid in whole or in part until fully paid by the Trustee on the next occurring Interest Payment Date or Dates, as necessary, for a subsequent Interest Period or Periods, on the earliest of such first occurring Interest Payment Date or the date of optional redemption or the Conversion Date and if paid on the date of optional redemption or the Conversion Date, then paid in full, if and to the extent that the conditions in the third preceding sentence are satisfied. On any Interest Payment Date on which the Trustee pays only a portion of the Carry-over Amount on a Note the Trustee will give written notice in the manner set forth in the preceding paragraph to the Holder of such Note receiving such partial payment of the Carry-over Amount remaining unpaid on such Note.

The Interest Payment Date in each subsequent Interest Period on which such Carry-over Amount will be paid will be determined by the Trustee as described in the preceding paragraph, and the Trustee will make payment of the Carry-over Amount in the same manner as, and from the same Account from which, it pays interest on the Notes on an Interest Payment Date. ANY UNPAID CARRY-OVER AMOUNT ON A NOTE NOT DUE AND PAYABLE ON THE MATURITY DATE OR MANDATORY REDEMPTION DATE WITH RESPECT TO SUCH NOTE (OR THE DATE WHEN SUCH NOTE IS DEEMED NO LONGER OUTSTANDING) WILL BE FORFEITED UPON THE MATURITY OR MANDATORY REDEMPTION OF SUCH NOTE (OR THE DATE WHEN SUCH NOTE IS DEEMED NO LONGER OUTSTANDING). THE INSURANCE POLICY DOES NOT APPLY TO ANY CARRY-OVER AMOUNT THAT MAY ACCRUE ON THE NOTES. Carry-Over Amount continues to accrue in accordance with the provisions therefor in the Indenture on Outstanding Notes until Conversion. Notes are not subject to Conversion unless all of the Carry-Over Amount accrued with respect to such Notes is paid or will be paid on the Conversion Date.

Conversion

At the option of the Foundation the Notes may be converted to bear interest at other than Auction Rates, but in no event to exceed the Interest Rate Limitation without the prior written consent of the Insurer; provided that the Foundation shall have delivered a Cash Flow Certificate to the Insurer and shall have delivered to the Trustee written evidence of the Insurer's prior written approval of such Conversion. Such Conversion shall be made as follows:

(a) The Conversion Date shall be a date on which a new Auction Period would otherwise have commenced.

(b) The Notes are subject to mandatory tender for purchase on the Conversion Date at a purchase price equal to the principal amount thereof plus, unless the Conversion Date is an Interest Payment Date, accrued and unpaid interest to the Conversion Date, plus accrued and unpaid Carry-over Amounts.

(c) Not less than fifteen (15) days prior to the date on which the Note Registrar is required to notify the Noteholders of the Conversion pursuant to subparagraph (d) below, the Foundation shall give written notice of the Conversion to the Trustee, the Auction Agent, the Market Agent, all Broker-Dealers, the Note Registrar, DTC and the Insurer setting forth the Conversion Date and including a form for the notice to be given pursuant to paragraph (d) below. Such notice may be revoked by the Foundation at any time prior to the proposed Conversion Date by written notice from the Foundation to all parties to whom notice of such Conversion has been given pursuant to the Indenture.

(d) The Note Registrar shall mail a notice of the Conversion to all Noteholders not less than seven (7) days prior to the Conversion Date, which notice shall inform the Noteholders of the Conversion Date, advise the Noteholders that the Notes are subject to mandatory tender to the Trustee for purchase on the Conversion Date and specify the time and place at which Notes are to be tendered for purchase.

(e) Notwithstanding any provisions to the contrary contained in the Indenture:

(i) if the Foundation revokes its exercise of its option to convert for any reason at any time after notice of such proposed Conversion shall have been given to Noteholders, the Notes shall continue to bear interest at Auction Rates and the rate of interest for the Auction Period commencing on or including the proposed Conversion Date shall be the Maximum Rate as determined in accordance with the Auction Procedures;

(ii) if on a proposed Conversion Date the purchase price for all the Notes has not been deposited with the Trustee by the times set forth below, the Auction Agent shall be promptly notified thereof and the Notes shall continue to bear interest at Auction Rates and the rate of interest for the Auction Period commencing on or including the proposed Conversion Date shall be the Maximum Rate determined in accordance with the Auction Procedures.

(f) At least 15 days prior to a proposed Conversion Date, the Trustee shall send notice thereof to DTC and the Auction Agent and shall make available to DTC such other information as DTC may reasonably require in order to effect the exchange of Notes held by DTC for Notes bearing interest at a new interest rate.

(g) The Foundation shall cause notice to be given to the Trustee of the principal amount of tendered Notes which are remarketed and of the names, addresses and taxpayer identification numbers of other purchasers and the denominations of Notes to be delivered to each purchaser.

(h) Before the close of business on the date set for purchase of tendered Notes and upon receipt of 100% of the aggregate purchase price of the tendered Notes and the Notes to be purchased, the Trustee shall pay the purchase price of such Notes to the Owners thereof at the principal office of the Trustee or by bank wire transfer to the accounts specified in instructions delivered to the Trustee in form and content acceptable to the Trustee. Such payments are to be made in funds immediately available in New York, New York.

(i) All Notes to be purchased on any Conversion Date shall be required to be delivered to the Principal Office of the Trustee at or before 1:00 p.m., New York City time, on the Conversion Date.

(j) Any Notes required to be purchased and any Notes required to be tendered for purchase that are not delivered for which there has been irrevocably deposited in trust with the Trustee an amount of money sufficient to pay the purchase price thereof shall be deemed to have been tendered to the Trustee pursuant to the Indenture and shall be "Undelivered Notes." In the event of a failure by any Noteholder to deliver its Notes on or prior to the required date, said Noteholder shall not be entitled to any payment (including any interest to accrue subsequent to the required purchase date) other than the purchase price for such Undelivered Notes, and any Undelivered Notes shall no longer be entitled to the benefits of the Indenture, except for the payment of the purchase price therefor. Any moneys held by the Trustee under the Indenture for the purchase of an Undelivered Note shall be separated and held in a segregated fund by the Trustee and shall not be invested and shall be held for the exclusive benefit of the Owner of such Undelivered Notes. The Foundation shall execute and the Note Registrar shall authenticate a new Note or Notes in replacement of any Undelivered Note and shall register such Note or Notes in accordance with instruction from the Foundation. The replacement of any previously outstanding note shall not be deemed to create a new indebtedness, but such Note as is issued shall be deemed to evidence the indebtedness previously evidenced by the Undelivered Note.

(k) Anything in this section to the contrary notwithstanding, Notes shall not be purchased with any moneys (other than Available Funds) provided, directly or indirectly, by the Foundation.

Interest Limited to the Extent Permissible by Law

In no event will the cumulative amount of interest paid or payable on any Obligation, including the Notes (including interest calculated as provided in the Indenture, plus any other amounts that constitute interest on such Obligation under applicable law which are contracted for, charged, reserved, taken or received pursuant to the Obligation or related documents), calculated from the date of issuance of such obligation through any subsequent day during the term of the Obligation or otherwise prior to payment in full of the Obligation exceed the amount permitted by applicable law. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under any Obligation or related documents or otherwise contracted for, charged, reserved, taken or received in connection with the Obligation, or if the redemption or acceleration of the maturity of any Obligation results in payment to or receipt by the Holder or any former Holder of the Obligation of any interest in excess of that permitted by applicable law, then notwithstanding any provision of the Obligation or related documents to the contrary all excess amounts theretofore paid or received with respect to the Obligation will be credited on the principal balance of the Obligation (or, if the Obligation has been paid or would thereby be paid in full, refunded by the recipient thereof), and the provisions of the Obligation and related documents will immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for under the Obligation and under the related documents.

Additional Notes and Other Obligations

Additional Notes. Additional Notes shall be delivered by the Trustee from time to time, but only on an Auction Rate Adjustment Date, upon receipt by the Trustee of:

- (i) a Delivery Certificate in substantially the form set forth as Exhibit "C" to the Indenture;
- (ii) evidence of the Insurer's consent to delivery of such Additional Notes;
- (iii) evidence that delivery of such Notes will not adversely affect any rating then applicable to the Outstanding Obligations; and
- (iv) the purchase price for such Additional Notes as specified in the Delivery Certificate.

Other Obligations. Additional Series of Obligations may be issued from time to time pursuant to terms set forth in an amendment or supplement to the Indenture, provided that prior to the issuance thereof evidence shall have been delivered to the Trustee that (i) the Insurance Policy has been amended or supplemented (to insure such additional Obligations) or an additional Insurance Policy has been issued to insure such additional Obligations, and (ii) no such Obligations shall bear interest at a rate in excess of the Interest Rate Limitation without the express prior written consent of the Insurer.

SECURITY FOR THE NOTES

THE NOTES ARE SPECIAL OBLIGATIONS OF THE FOUNDATION, A PRIVATE NONPROFIT CORPORATION ORGANIZED UNDER THE LAWS OF THE STATE OF MISSISSIPPI. THE NOTES DO NOT CONSTITUTE A DEBT, A LIABILITY, OR A LEGAL OR MORAL OBLIGATION OF THE STATE OF MISSISSIPPI OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF OR A PLEDGE OF THE FAITH AND CREDIT OR THE TAXING POWERS OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF FOR ANY PURPOSE WHATSOEVER. THE FOUNDATION IS NOT AN AGENCY OR INSTRUMENTALITY OF THE STATE OR ANY AGENCY OR POLITICAL SUBDIVISION THEREOF.

Generally

The Notes are special obligations of the Foundation secured by and payable from the Trust Estate Funds and, excluding any Carry-over Amount and any interest accrued thereon, if any, with respect to the Notes, any amounts received under the Insurance Policy. The Notes are not a general obligation of the Foundation.

Trust Estate

To secure the payment of principal of and interest on the Obligations, including the Notes, the Indenture provides for a pledge of, a grant of a lien on and a security interest in, and an assignment of, all of the Foundation's rights in, the Trust Estate to the Trustee for the equal and ratable benefit of the Beneficiaries, subject to the provisions of the Indenture permitting their application for the purposes and on the terms and conditions set forth in the Indenture and subject to (i) under certain circumstances the prior rights of the Trustee with respect to payment of their fees and expenses and (ii)(a) the rights of the any Swap Counterparty under any Swap Agreement related to the Obligations and (b) the rights of the Insurer, which rights are on a parity with the rights of the Holders of the Obligations, except for the right of any Swap Counterparty to an early termination payment, which right is subordinate to the rights of the Holders.

To secure the payment of (i) the obligations of the Foundation under any Swap Agreement related to any Obligations, including the Notes, and (ii) all amounts owed under any Insurance Policy, the Indenture also provides the above-described pledge of, grant of a lien on and security interest in, and assignment of, all of the Foundation's rights in, the Trust Estate (excluding such Swap Counterparty's rights with respect to its Swap Agreement and any Swap Counterparty Guarantee related thereto) to the Trustee for the benefit of such Swap Counterparty and the Insurer, the rights of such Swap Counterparty and the Insurer being on a parity with the rights described above of the Holders of Obligations, subject to the same Indenture provisions and prior rights described in the preceding paragraph.

The Trust Estate includes all rights, title, interests and privileges of the Foundation with respect to Pledged Student Loans (as hereinafter defined and including the evidences of indebtedness thereof and related documentation), and in, to and under all Guarantee Agreements, the Contract of Insurance, the Certificates of Insurance, all Purchase Agreements and all Federal Reimbursement Contracts insofar as they relate to the Pledged Student Loans; and all rights, title, interests and privileges of the Foundation in and to the revenues, moneys, evidences of indebtedness and securities in and payable into the Trust Estate Fund, including any contract or any evidence of indebtedness or other rights of the Foundation to receive any of the same, whether now existing or hereafter coming into existence, and whether now or hereafter acquired.

Swap Agreements

Under the Indenture, the Foundation has the ability, but only with the written consent of the Insurer, to enter into an interest rate Swap Agreement (a "Swap Agreement") with one or more Swap Counterparties. If the Foundation enters into such an agreement with a Swap Counterparty, such Swap Counterparty will agree to pay the Trustee on each Interest Payment Date or other date on which any Counterparty Swap Payment is due, a fixed or variable swap rate on a notional amount which may be equal to, or less than, the principal amount of Obligations, including the Notes, Outstanding to which the Swap Agreement relates; the Foundation will agree to pay on each Interest Payment Date or other date on which such a payment is due, by causing the Trustee to pay to the Swap Counterparty, a fixed or variable swap rate on such notional amount. The Foundation expects that any such Swap Agreement will provide that the payment obligations of the Foundation and a Swap Counterparty to each other will be netted on each Interest Payment Date or other date on which such a payment is due, and only one payment will be made by one party to the other. Any payment from a Swap Counterparty to the Trustee under a Swap Agreement will be deposited to the Revenue Account. At such times that the swap rate being paid by the Swap Counterparty is greater than the swap rate being paid by the Foundation, the Trustee's ability to make principal and interest payments on the Obligations, including the Notes, to which the Swap Agreement relates will be affected by the Swap Counterparty's ability to meet its net payment obligations to the Trustee. The Indenture requires that as of the date that the Foundation enters into a Swap Agreement the

Foundation must have received the written consent of the Insurer and written evidence from each Rating Agency that maintains a rating on the Obligations, that entering into such Swap Agreement would not adversely affect the rating of such Rating Agency on the Obligations.

REDEMPTION

The Notes are subject to redemption prior to maturity only as described below.

General

Anything in this section to the contrary notwithstanding, no Obligations shall be called for redemption if, at the time that notice thereof would be given by the Trustee, the Balances credited to the Reserve Subaccount are not at least equal to two and one-half percent (2 ½%) of the Outstanding principal amount of the Obligations.

If less than all of the Outstanding Obligations, including the Notes, are to be redeemed, the maturities of Obligations, including the Notes, to be redeemed shall be selected by the Foundation so that, to the maximum extent possible taking into account redemption of Obligations in Authorized Denominations, approximately equal percentages of each Stated Maturity of the Obligations will be redeemed; unless the Trustee shall have received, not less than twenty-two (22) days prior to the Redemption Date: a Foundation Order directing that specific aggregate principal amounts of Obligations of one or more specific Stated Maturities shall be redeemed; and a Cash Flow Certificate with respect to redemption of such aggregate principal amounts of such Stated Maturities.

If less than all Outstanding Obligations of a maturity are to be redeemed, the particular Obligations to be redeemed shall be selected in accordance with any applicable procedures of the Depository by the Trustee by lot or random selection in such manner as the Trustee shall deem fair and appropriate. The Trustee may provide for the selection of portions of the principal of Obligations. The Trustee shall promptly notify the Foundation in writing of the Obligations selected for redemption and, in the case of any Obligation selected for partial redemption, the principal amount thereof to be redeemed.

Without in any manner limiting the ability or obligation of the Foundation to redeem Obligations as provided in the Indenture, the Foundation agrees that it will use its best efforts (to the extent, if any, that it shall have discretion) to cause payments under the Indenture in connection with any redemption of Obligations to be made with Available Funds.

For all purposes of the Indenture, unless the context otherwise required, all provisions relating to the redemption of Obligations shall relate, in the case of any Obligation redeemed or to be redeemed only in part, to the portion of the principal of such Obligation which has been or is to be redeemed.

Optional Redemption Prior to Maturity

The Notes, as long as they are in the form of Auction Rate Securities, are subject to redemption in whole or in part on any Interest Payment Date prior to the Maturity Date at the option of the Foundation and with the prior written consent of the Insurer upon notice given by the Trustee to the Holders in the form and manner described below under the caption "Notice of Redemption" at a redemption price of 100% of the principal amount redeemed plus accrued interest and any accrued and unpaid Carry-over Amounts to the Redemption Date.

If moneys in an amount sufficient to effect such redemption are not on deposit with (or held by the Trustee) and not set aside for such purpose not later than the date on which notice of redemption is given, such redemption shall be contingent upon the availability of funds to effect such redemption. An optional redemption shall occur only at such times as there are funds at least equal to the sum of (i) the interest due on (A) the Notes (together with any Carry-over Amount and interest accrued thereon) to be redeemed on such Redemption Date and

(B) any other Obligations on which interest is payable on such Redemption Date and (ii) any Swap Payment due on such Redemption Date.

Mandatory Redemption Prior to Maturity

The Notes are subject to mandatory redemption, in part and in Authorized Denominations, on the next Auction Rate Adjustment Date not less than thirty (30) days after proceeds of the Notes have been transferred from the Acquisition Subaccount to the Redemption Subaccount, at a redemption price equal to the unpaid principal amount thereof, plus, unless the Redemption Date shall be an Interest Payment Date with respect to the Notes to be redeemed, accrued and unpaid interest to the Redemption Date, from proceeds of the Notes remaining in the Acquisition Subaccount and transferred from the Acquisition Subaccount to the Redemption Subaccount. The principal amount of the Notes to be so redeemed shall equal the Balances so transferred, rounded down to the next lower integral multiple of \$100,000. The maturities to be redeemed shall be selected by the Foundation so that, to the maximum extent possible taking into account redemption of the Notes in Authorized Denominations, approximately equal percentages of each Stated Maturity of the Notes will be redeemed, unless the Trustee shall have received, not less than twenty (20) days prior to the Redemption Date, (i) a Foundation Order directing that specific aggregate principal amounts of Notes of one or more specific Stated Maturities shall be redeemed and (ii) a Cash Flow Certificate with respect to redemption of such aggregate principal amounts of such Stated Maturities.

The Notes are subject to mandatory redemption, in part and in Authorized Denominations, on any Auction Rate Adjustment Date at a redemption price equal to the unpaid principal amount thereof, plus, unless the Redemption Date shall be an Interest Payment Date with respect to the Notes to be redeemed, accrued and unpaid interest to the Redemption Date from Balances transferred from the Recycling Subaccount to the Redemption Subaccount. The principal amount of Notes to be so redeemed shall equal (i) the aggregate of the Balances transferred from the Recycling Subaccount to the Redemption Subaccount not less than thirty (30) days prior to the Redemption Date, (ii) less the aggregate principal amount of Notes previously redeemed pursuant to this paragraph, (iii) rounded down to the next lower integral multiple of \$100,000. The maturities to be redeemed shall be selected by the Foundation so that, to the maximum extent possible taking into account redemption of Notes in Authorized Denominations, approximately equal percentages of each Series and Stated Maturity of the Notes will be redeemed, unless the Trustee shall have received, not less than twenty (20) days prior to the Redemption Date, (i) a Foundation Order directing that specific aggregate principal amounts of Notes of one or more specific Series and/or Stated Maturities shall be redeemed and (ii) a Cash Flow Certificate with respect to redemption of such aggregate principal amounts of such Series and/or Stated Maturities.

Notice of Redemption

Notice of redemption of any Obligations, including the Notes, is required to be given by first class mail, postage prepaid, mailed to the Holders of such Obligations at the address of such Holder as it appears on the books of registry not less than fifteen (15) nor more than sixty (60) days prior to the Redemption Date. Neither failure to give any such notice nor any defect in such notice will affect the validity of the proceedings for the redemption of any Obligation not affected by such failure or defect. Notice of redemption having been given as aforesaid, the Obligations so to be redeemed shall, on the Redemption Date, become due and payable at the redemption price specified and on and after such date (unless the Foundation shall default in the payment of the redemption price or in the payment of accrued interest) such Obligations shall cease to bear interest. Upon surrender of any such Obligation for redemption in accordance with such notice, such Obligation shall be paid at the redemption price thereof and installments of interest whose Stated Maturity is subsequent to the Redemption Date shall not be otherwise payable.

A copy of each redemption notice described above shall also be given by the Trustee, on the date of mailing to Holders, to two national information services by a secure means such that the Trustee will be able to verify the date of mailing (or delivery); provided that a failure to give such notice to national information services shall not affect the validity of the proceedings for redemption of any Obligation held by any Holder to whom notice shall have been given as provided herein.

Within sixty (60) days following any Redemption Date, a second notice of redemption shall be given, in the manner described above, to the Holder of any Obligation not presented for redemption within thirty (30) days of the Redemption Date.

If any Obligation called for redemption shall not be so paid upon surrender thereof for redemption, the redemption price (and, to the extent lawful, interest thereon) shall, until paid, bear interest from the Redemption Date at the rate borne by such Obligation.

Any Obligation which is to be redeemed only in part shall be surrendered to the Authenticating Agent (with, if the Authenticating Agent so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Authenticating Agent, duly executed by the Holder thereof or his attorney duly authorized in writing) and the appropriate officers or officials of the Foundation shall execute and the Authenticating Agent shall authenticate and deliver to the Holder of such Note, without service charge, a new Obligation or Obligations of any Authorized Denomination or Denominations, having the same Stated Maturity, as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Note so surrendered.

THE INDENTURE

The following is a summary of certain provisions of the Indenture relating to the Notes and any other Series of Obligations and is not to be considered as a full statement of the provisions of the Indenture. This summary is qualified by reference to and is subject to such document. See "INTRODUCTION" for information regarding the availability of the form of the Indenture.

Fund and Accounts

The Indenture establishes the Trust Estate Fund. This Fund is held by the Trustee for the benefit of the Holders and contains several Accounts and Subaccounts within such Accounts. Certain of these Subaccounts are initially funded with the proceeds of the Notes on the date of their issuance. See "ESTIMATED SOURCES AND USES OF FUNDS" included in the Supplement, if any, attached to this Offering Memorandum. The Indenture provides for the balances of these Accounts and Subaccounts to be applied as described below.

Acquisition Account. Within the Acquisition Account there is created (a) an Acquisition Subaccount, (b) a Recycling Subaccount and (c) a Capitalized Costs Subaccount.

Proceeds of Obligations shall be credited to the Acquisition Subaccount and the Capitalized Costs Subaccount as provided in the Indenture. Amounts, if any, transferred to the Recycling Subaccount from the Revenue Account as provided in the Indenture shall be credited to the Recycling Subaccount. Amounts, if any, which would not otherwise be a part of the Trust Estate and which are delivered by the Foundation to the Trustee with instructions to credit such amounts to the Acquisition Account shall be credited to such Subaccount or Subaccounts within the Acquisition Account as shall be specified in such instructions.

The Trustee shall disburse amounts credited to the Acquisition Subaccount and the Recycling Subaccount (which amounts shall, unless directed otherwise by the Foundation, be charged first from amounts credited to the Recycling Subaccount and thereafter to amounts credited to the Acquisition Subaccount) to acquire or refinance Eligible Loans upon satisfaction of the following conditions:

- (a) prior to such disbursement, the Trustee shall have received: an Eligible Loan Acquisition Certificate with all required supplements and attachments designating the Student Loans to be purchased or refinanced with such funds, the purchase price thereof and the date on which such purchase or refinancing is to occur; evidence that after such acquisition, the Aggregate Market Value of Pledged Student Loans that are Proprietary-Vocational School Loans will not exceed eight percent (8%) (or such greater percentage as shall be approved in writing by the Insurer) of the Aggregate Market Value of all Pledged Student Loans;

evidence that, except as otherwise approved by the Insurer (which approval shall not be unreasonably withheld) or as shall be set forth in a Delivery Certificate, after such acquisition the types of Eligible Loans included as Pledged Student Loans will be as described in the Indenture; and a Servicer Receipt from a Servicer certifying with respect to such Student Loans that such Servicer has in its possession and is holding as bailee on behalf of the Trustee each of the following documents or instruments:

- (i) a copy of the original Student Loan application (with all required supplements);
- (ii) the original Student Loan note;
- (iii) the notification of loan approval by a Guarantor;
- (iv) evidence of disbursement of such Student Loan; and
- (v) any further documentation required by the Secretary or the applicable Guarantor; and

(b) at the time of such disbursement, no Event of Default shall have occurred and be continuing.

Amounts so disbursed shall be paid to the payee designated in the Eligible Loan Acquisition Certificate.

If the Balances credited to the Revenue Account are not sufficient to pay Debt Service when due, amounts, if any, disbursed to pay such principal and interest shall be charged to the Acquisition Account in accordance with the Indenture.

Amounts credited to the Capitalized Costs Subaccount shall be disbursed from the Capitalized Costs Subaccount to pay Debt Service as provided in the Indenture. Amounts not exceeding \$1,390,000 (or such greater amount as shall be set forth in a future Delivery Certificate or as shall be otherwise approved by the Insurer) credited to the Capitalized Costs Subaccount may be disbursed from the Capitalized Costs Subaccount, to pay Costs of Issuance, Administrative Expenses and Note Fees upon receipt by the Trustee of a Foundation Order directing such disbursement. From time to time the Trustee shall disburse amounts credited to the Acquisition Subaccount or the Recycling Subaccount (or both) to pay Note Fees or Administrative Expenses (or both) upon receipt by the Trustee of a Foundation Order directing such disbursement and specifying the Subaccount or Subaccounts to which such disbursement is to be charged; and written evidence of the Insurer's prior written consent to such disbursement. Any Balances credited to the Capitalized Costs Subaccount on January 1, 1999, (or such later date as shall be approved by the Insurer) shall be transferred to the Acquisition Subaccount.

Any Balances (other than Student Loans) credited to the Acquisition Subaccount on July 1, 1999 (or such later date as shall be approved by the Insurer) shall be transferred to the Redemption Subaccount.

Any Balances (other than Student Loans) credited to the Recycling Subaccount on the sixtieth day after such amounts shall have been credited to the Recycling Subaccount (or such later date as shall be approved by the Insurer or such earlier date which is ten (10) days after the date on which the Trustee shall have received written notice from the Insurer directing that no further Student Loans shall be acquired with moneys credited to the Recycling Subaccount and stating a reasonable basis why the financing of additional Eligible Loans should not occur, shall be transferred to the Redemption Subaccount. (For purposes of determining whether particular amounts remain in the Recycling Subaccount, it shall be assumed that all disbursements from the Recycling Subaccount are made from moneys which, at the time of disbursement, have been in such Subaccount for the longest period of time.)

Revenue Account. Within the Revenue Account, there is created a Principal Repayment Subaccount and an Income Subaccount.

The Foundation shall cause (a) all amounts received as interest (including Interest Benefit Payments), with respect to Pledged Student Loans credited to the Acquisition Account, including all Insurance and Guarantee payments, to the extent applicable to interest, any origination fees, and any premium paid by a Lender on the repurchase pursuant to a Purchase Agreement, of a Pledged Student Loan credited to the Acquisition Account, (b) all Special Allowance Payments received with respect to Pledged Student Loans credited to the Acquisition Account, and (c) all proceeds from the sale or other conveyance of Pledged Student Loans credited to the Acquisition Account to the extent allocated to interest, Interest Benefit Payments or Special Allowance Payments, upon receipt by the Foundation, a Lender or a Servicer, or any agent thereof, as the case may be, to be forthwith transmitted to the Trustee and credited to the Income Subaccount. Investment earnings with respect to amounts credited to the Acquisition Account, the Debt Service Account and the Revenue Account shall be credited to the Revenue Account, and therein to the Income Subaccount, as provided in the Indenture. Additional amounts, if any, which would not otherwise be a part of the Trust Estate and which are delivered by the Foundation to the Trustee with instructions to credit such amounts to the Income Subaccount shall be credited to the Income Subaccount.

The Foundation shall cause all amounts (a) received as (i) principal payments, including all Insurance and Guarantee payments to the extent allocable to principal, and (ii) the proceeds of any sale or other conveyance which represent principal from Pledged Student Loans and (b) which would not otherwise be a part of the Trust Estate and which are delivered by the Foundation to the Trustee with instructions to credit such amounts to the Principal Repayment Subaccount shall be credited upon receipt to the Principal Repayment Subaccount.

The following amounts shall be transferred or disbursed, as applicable, as of the close of business on the last day of each calendar month, from the Revenue Account, in the following order of priority:

(a) to the Current Debt Service-Interest Subaccount, from Balances credited to the Income Subaccount, to the extent that such Balances are sufficient, and otherwise from Balances credited to the Principal Repayment Subaccount, an amount equal to the lesser of: (i) the Balance credited to the Revenue Account; or (ii) the amount which, if deposited on such day would cause the Balance in the Current Debt Service-Interest Subaccount on such day to equal (A) the aggregate accrued and unpaid interest on all Obligations through and including such day, plus (B) the accrued net liability (if any) of the Foundation to all Swap Counterparties on all Swap Agreements and excluding, except to the extent expressly approved by the Insurer, payments in respect of any early termination date, as defined in the applicable Swap Agreement, through such day, and less (C) the aggregate accrued net liability (if any) through and including such day of all Swap Counterparties to the Foundation on all Swap Agreements to the extent that such net liability reflects amounts payable on or prior to the next Note Payment Date;

(b) if such day shall be less than twelve (12) months prior to a Principal Payment Date, to the Current Debt Service-Principal Subaccount, from Balances credited to the Principal Repayment Subaccount, to the extent that such Balances are sufficient, and otherwise from Balances credited to the Income Subaccount, an amount equal to the lesser of: (i) the Balance credited to the Revenue Account, after all transfers as of such day as provided above; or (ii) the amount which, if deposited on such day and on the last day of each succeeding calendar month to and including the last calendar month prior to the next Principal Payment Date, would cause the Balance in the Current Debt Service-Principal Subaccount on such next Principal Payment Date to equal the principal of all Obligations maturing on such Principal Payment Date;

(c) to pay (or to reimburse the Foundation for amounts expended to pay), from Balances credited to the Income Subaccount, to the extent that Balances credited to the Income Subaccount are sufficient, and otherwise from Balances credited to the Principal Repayment Subaccount, Priority Note Fees and Servicing Fees, upon receipt of a Foundation Order specifying payments made, or to be made, by the Foundation within thirty (30) days of said Foundation Order, to designated payees in designated amounts for stated services and in each case certifying that such payment is authorized by the Indenture and is a Priority Note Fee or Servicing Fee;

(d) to pay (or to reimburse the Foundation for amounts expended to pay), from Balances credited to the Income Subaccount, to the extent that Balances credited to the Income Subaccount are sufficient, and otherwise from Balances credited to the Principal Repayment Subaccount, Non-Priority Note Fees, upon receipt of a Foundation Order specifying payments made, or to be made, by the Foundation within thirty (30) days of said Foundation Order, to designated payees in designated amounts for stated services and in each case certifying that such payment is authorized by this Indenture and is a Non-Priority Note Fee;

(e) to the Foundation, from Balances credited to the Income Subaccount, to the extent that Balances credited to the Income Subaccount are sufficient, and otherwise from Balances credited to the Principal Repayment Subaccount, amounts to provide funds to pay Administrative Expenses (other than Servicing Fees) at any time, in cumulative amounts in any given Fiscal Year not in excess of (1) the amount of Budgeted Administrative Expenses (other than Servicing Fees) expected to be paid by the Foundation with the ninety (90) days next succeeding the date of such Foundation Order for that Fiscal Year, unless an Authorized Officer shall certify in writing to the Trustee that Administrative Expenses (other than Servicing Fees) in an increased amount (a) are reasonable and necessary in light of all circumstances then existing, and (b) will not materially adversely affect the ability of the Foundation to pay or perform, as the case may be, all of its obligations under the Indenture (provided, however, that nothing in this section shall prevent the Foundation's paying, with the consent of the Insurer which shall not be unreasonably withheld, reasonable and necessary Administrative Expenses at any time if the failure to pay such Administrative Expenses would have a greater material adverse effect on the ability of the Foundation to pay or perform, as the case may be, all of its obligations under the Indenture than payment of such Administrative Expenses would have), plus (2) with the prior written consent of the Insurer (which consent shall not be unreasonably withheld) the amount of Administrative Expenses for any prior Fiscal Year previously paid by the Foundation from a source other than moneys in the Trust Estate Fund and requested to be reimbursed to such source, provided that the amount of such Administrative Expenses, together with all other Administrative Expenses for such prior Fiscal Year previously charged to the Revenue Account, shall not exceed the Budgeted Administrative Expenses for such prior Fiscal Year;

(f) to the Reserve Subaccount, from Balances credited to the Income Subaccount, to the extent that Balances credited to the Income Subaccount are sufficient, and otherwise from Balances credited to the Principal Repayment Subaccount, such amount, if any, as shall be necessary in order for the aggregate of the Balance in the Reserve Subaccount plus the Balance (other than Student Loans) credited to the Additional Collateral Account to equal the Reserve Requirement;

(g) prior to October 1, 2001 (or such later date as shall be approved by the Insurer after review of a Cash Flow Certificate provided to the Insurer by the Foundation), and unless the Insurer shall have notified the Trustee and the Foundation that no further amounts shall be transferred from the Revenue Account to the Recycling Subaccount (which notice shall state a reasonable basis why the financing of additional Eligible Loans should not occur), to the Recycling Subaccount, from Balances credited to the Principal Repayment Subaccount or the Income Subaccount as shall be directed by the Foundation, such amounts as shall have been specified by a notice delivered by the Foundation to the Trustee not later than the last Business Day of the calendar month following the specified transfer date, provided that such notice shall be accompanied by a certificate executed by an Authorized Officer that, based on reasonable projections, any moneys to be so used are not reasonably expected to be needed for the payment of Debt Service on and with respect to the Outstanding Obligations, Administrative Expenses or Note Fees;

(h) to the Redemption Subaccount, from Balances credited to the Principal Repayment Subaccount, all Balances remaining credited to the Principal Repayment Subaccount to the extent not reasonably expected by the Foundation to be needed to pay Debt Service, Administrative Expenses or Note Fees; and

(i) to the Redemption Subaccount, from Balances credited to the Income Subaccount, such amounts as shall have been specified by a notice delivered by the Foundation to the Trustee not later than

the last Business Day of the calendar month following the specified transfer date, provided that such notice shall be accompanied by a certificate executed by an Authorized Officer that, based on reasonable projections, any moneys to be so used are not reasonably expected to be needed for the payment of Debt Service on and with respect to the Outstanding Obligations, Administrative Expenses, Servicing Fees or Note Fees.

There shall be transferred to the Current Debt Service-Interest Subaccount, on the third Business Day prior to a Note Payment Date (and on each succeeding Business Day to and including such Note Payment Date), from Balances credited to the Income Subaccount, to the extent that Balances credited to the Income Subaccount are sufficient, and otherwise from Balances credited to the Principal Repayment Subaccount, such amounts as may be necessary to cause the Balances credited to the Current Debt Service-Interest Subaccount to be sufficient (after taking into account any payments to be received from any Swap Counterparty on or prior to such Note Payment Date) to pay interest due on such Note Payment Date.

There shall be transferred to the Current Debt Service-Principal Subaccount, on the third Business Day prior to a Note Payment Date (and on each succeeding Business day to and including such Note Payment Date), from Balances credited to the Principal Repayment Subaccount, to the extent that Balances credited to the Principal Repayment Subaccount are sufficient, and otherwise from Balances credited to the Income Subaccount, such amounts as may be necessary to cause the Balances credited to the Current Debt Service-Principal Subaccount to be sufficient (after taking into account any payments to be received from any Swap Counterparty on or prior to such Note Payment Date) to pay principal due on such Note Payment Date.

There shall be transferred to the Current Debt Service-Interest Subaccount, on the Business Day prior to each Note Payment Date, from Balances credited to the Income Subaccount, to the extent that Balances credited to the Income Subaccount are sufficient, provided that the ratio of (1) Balances credited to the Trust Estate Fund to (2) the aggregate principal amount of all Outstanding Obligations (net of accrued amounts owed by or to the Foundation pursuant to any Swap Agreements) plus accrued interest thereon shall have been at least 100% as of the last day of the second month prior to such Note Payment Date, after all transfers pursuant to the two immediately preceding paragraphs, an amount equal to any Carry-over Amounts payable on such Note Payment Date.

From time to time, the Trustee shall, with the consent of the Insurer, disburse funds from the Revenue Account to refund payments erroneously deposited into the Trust Estate Fund; to refund overpayments by or on behalf of a borrower; to refund amounts to a Guarantor or the Department of Education as a result of receipt of payments from a borrower on a student loan after payment of a claim by such Guarantor or the Department of Education; to repurchase one or more Student Loans (whether or not such Student Loans were previously part of the Trust Estate) from a Guarantor or the Department of Education (which repurchased loans shall be credited to the Acquisition Account); to otherwise correct any erroneous payment or action, regardless of whether the Foundation knew or should have known that such payment or action was erroneous; or to pay amounts required to be paid under regulations of the Secretary or any Guarantor; provided that prior to any such disbursement there shall be delivered to the Trustee a written statement describing the reason for the payment. Amounts disbursed pursuant to this paragraph which represent refunds of amounts credited to the Principal Repayment Subaccount and the Income Subaccount shall be charged to the Principal Repayment Subaccount and the Income Subaccount, respectively, and amounts disbursed pursuant to this paragraph to repurchase Student Loans shall be charged to the Principal Repayment Subaccount and the Income Subaccount, respectively, based on the principal and accrued interest, respectively, included in the repurchase price.

From time to time, the Trustee shall disburse funds credited to the Revenue Account (to be charged to such Subaccount as the Foundation shall direct) for such other purposes as the Foundation shall direct upon receipt by the Trustee of (i) a Foundation Order directing such disbursement, (ii) a Cash Flow Certificate with respect to such disbursement approved by the Insurer (which approval shall not be unreasonably withheld), (iii) evidence that after such disbursement, the Parity Requirement and the Reserve Requirement will be met and (iv) a Foundation Certificate that, at the time of and after giving effect to such disbursement, no Event of Default shall have occurred and be continuing.

From time to time the Trustee shall, with the consent of the Insurer, disburse amounts credited to the Revenue Account and, to the extent approved by the Insurer, other Accounts, to make payments due pursuant to Swap Agreements which do not constitute Swap Payments, in accordance with procedures approved in writing by the Insurer, with such payments to be charged to such Subaccounts as shall be specified in such procedures.

Debt Service Account; Payment of Debt Service. There shall be created within the Debt Service Account a Current Debt Service-Interest Subaccount, a Current Debt Service-Principal Subaccount, a Reserve Subaccount and a Redemption Subaccount.

There shall be credited to the Current Debt Service-Interest Subaccount proceeds derived from the sale of Obligations or other amounts, as provided in the Indenture.

There shall be credited to the Current Debt Service-Interest Subaccount and the Current Debt Service-Principal Subaccount, all amounts transferred to such Subaccounts from the Revenue Account pursuant to the Indenture. There shall also be deposited into the Trust Estate Fund and credited to the Current Debt Service-Interest Subaccount and the Current Debt Service-Principal Subaccount, that portion of the proceeds from the sale of the Foundation's bonds, notes or other evidences of indebtedness, if any, to be used to pay interest on Obligations and regularly scheduled principal of Obligations.

There shall be credited to the Reserve Subaccount proceeds derived from the sale of Obligations or other amounts as provided in the Indenture. There shall also be credited to the Reserve Subaccount all amounts required to be transferred from the Revenue Account to the Reserve Subaccount pursuant to the Indenture.

There shall be deposited into the Trust Estate Fund all payments received from any Swap Counterparty, and such payments shall be credited to the Current Debt Service-Interest Subaccount, to the extent necessary in order that the Balance credited to the Current Debt Service-Interest Subaccount equal interest due on the Obligations on the next Interest Payment Date and Swap Payments due on such Interest Payment Date, with the remainder being credited to the Income Subaccount.

There shall be credited to the Redemption Subaccount all amounts transferred from the Revenue Account to the Redemption Subaccount pursuant to the Indenture and all amounts transferred from the Acquisition Account to the Redemption Subaccount pursuant to the Indenture. That portion of the proceeds from the sale of the Foundation's bonds, notes or other evidences of indebtedness, if any, to be used to pay principal (prior to the Stated Maturity thereof) of the Obligations shall be deposited into the Trust Estate Fund and credited to the Redemption Subaccount.

On each Interest Payment Date or other date on which Obligations are to be redeemed, the Trustee shall withdraw from the Trust Estate Fund and remit the amounts required for paying principal of and interest on the Obligations when due and payable.

On each date on which a Swap Payment is due to a Swap Counterparty pursuant to a Swap Agreement, the Trustee shall withdraw from the Trust Estate Fund and remit the amounts required for such payment to such Swap Counterparty.

All payments of interest on the Obligations and all Swap Payments to Swap Counterparties shall be charged: first, to amounts credited to the Current Debt Service-Interest Subaccount; second, to amounts credited to the Capitalized Costs Subaccount; third to amounts credited to the Redemption Subaccount, to the extent that the balance in the Redemption Subaccount shall exceed the aggregate principal amount of Obligations theretofore called for redemption but not yet redeemed; fourth, to amounts credited to the Income Subaccount; fifth, to amounts credited to the Principal Repayment Subaccount; sixth, to amounts credited to the Reserve Subaccount; seventh, to amounts (other than Student Loans) credited to the Recycling Subaccount; eighth, to amounts (other than Student Loans) credited to the Acquisition Subaccount; and ninth, to amounts (other than Student Loans) credited to the Additional Collateral Account.

All payments of principal of Obligations, other than upon redemption of such Obligations prior to Stated Maturity, shall be charged: first, to amounts credited to the Current Debt Service-Principal Subaccount; second, to amounts credited to the Capitalized Costs Subaccount; third to amounts credited to the Redemption Subaccount, to the extent that the Balance in the Redemption Subaccount shall exceed the aggregate principal amount of Obligations theretofore called for redemption but not yet redeemed; fourth, to amounts credited to the Income Subaccount; fifth, to amounts credited to the Principal Repayment Subaccount; sixth, to amounts credited to the Reserve Subaccount; seventh, to amounts (other than Student Loans) credited to the Recycling Subaccount; eighth, to amounts (other than Student Loans) credited to the Acquisition Subaccount; and ninth, to amounts (other than Student Loans) credited to the Additional Collateral Account.

All payments of principal of Obligations pursuant to the Indenture upon redemption of Obligations prior to Stated Maturity (other than pursuant to sinking fund provisions) shall be charged to amounts credited to the Redemption Subaccount.

If at any time the Balance credited to the Reserve Subaccount shall exceed the Reserve Requirement, the excess may, upon direction of the Foundation, be transferred to the Income Subaccount.

Additional Collateral Account. Amounts (including Student Loans) delivered to the Trustee with instructions to credit such amounts to the Additional Collateral Account shall be credited to the Additional Collateral Account. Additional amounts (including Student Loans) which would not otherwise be a part of the Trust Estate and which are delivered to the Trustee with instructions to credit such amounts to the Additional Collateral Account shall be credited to the Additional Collateral Account as provided in the Indenture. Investment earnings with respect to amounts credited to the Additional Collateral Account shall be credited to the Additional Collateral Account as provided in the Indenture. The Foundation shall cause all amounts received as interest (including Interest Benefit Payments), and all amounts received as principal payments with respect to Pledged Student Loans credited to the Additional Collateral Account, including all Insurance and Guarantee payments, any origination fees, and any premium paid by a Lender on the repurchase, pursuant to a Purchase Agreement, of a Pledged Student Loan credited to the Additional Collateral Account, all Special Allowance Payments received with respect to Pledged Student Loans credited to the Additional Collateral Account, and all proceeds from the sale or other conveyance of Pledged Student Loans credited to the Additional Collateral Account, upon receipt by the Foundation, a Lender or a Servicer, or any agent thereof, as the case may be, to be forthwith transmitted to the Trustee and credited to the Additional Collateral Account.

From time to time, the Trustee shall disburse funds credited to the Additional Collateral Account upon receipt of: (a) a Foundation Order directing such disbursement; and (b) a Cash Flow Certificate approved by the Insurer, which approval shall not be unreasonably withheld, evidencing that after such disbursement, the Parity Requirement will be met; and (c) evidence that the aggregate of the balances credited to the Reserve Subaccount and the Balances (other than Student Loans) credited to the Additional Collateral Account shall equal or exceed the Reserve Requirement; and (d) a Foundation Certificate to the effect that at the time of, and after giving effect to, such disbursement, no Event of Default shall have occurred and be continuing. If the Balances (other than Student Loans) credited to the Debt Service Account, the Revenue Account and the Acquisition Account are not sufficient to pay principal and interest on the Obligations when due, amounts disbursed to pay such principal and interest shall be charged to the Additional Collateral Account in accordance with the Indenture.

Accounting

The Foundation shall maintain or cause to be maintained complete and accurate records of: all deposits to the Trust Estate Fund and the Account or Accounts to which each such deposit is credited; all transfers between and among Accounts pursuant to the Indenture; all disbursements from the Trust Estate Fund and the Account or Accounts to which such disbursement is charged; and the Balances in the Trust Estate Fund and each Account. The Foundation shall provide to Trustee and the Insurer, on or before the last Business Day of each calendar month, a complete accounting showing all such deposits, transfers and disbursements during the preceding calendar month. The Foundation may also, at any time, advise the Trustee of transfers made between Accounts, and

the Balance of such Accounts after such transfer. At any time that no Event of Default shall have occurred and be continuing, the Trustee shall rely (other than with respect to the aggregate Balances (other than Student Loans) credited to the Trust Estate Fund) upon all such accounting from the Foundation, unless (i) the Insurer shall have advised the Trustee that it is not to rely on such accounting, shall have expressed reasons therefor and shall not have thereafter advised Trustee that it shall rely on such accounting; (ii) such accounting, after reasonable review, does not appear to accurately reflect the matters set forth therein; or (iii) such accounting shall fail to account for all moneys and other assets (other than Student Loans) received or held by the Trustee and all disbursements made by the Trustee.

At any time that the Trustee is not required or permitted to rely upon such accounting or accountings by the Foundation, the Trustee shall maintain such records and make such accountings or cause a party approved by the Insurer to maintain such records and make such accountings.

Investments

Moneys held by the Trustee for the credit of any Fund, Account or Subaccount will be invested by the Trustee as directed by the Foundation to the fullest extent practicable and reasonable, in accordance with the Indenture, in Investment Securities, which shall mature or be redeemable at the option of the Holder before the respective dates when the moneys held for the credit of such Fund, Account or Subaccount will be required for the purposes intended, and any earnings on or income from said investments shall be deposited in the Trust Estate Fund and, except as otherwise provided in the Indenture, credited to the Income Subaccount. Any Investment Securities purchased with amounts credited to the Reserve Subaccount (and, to the extent that the Balances credited to the Reserve Subaccount shall be less than the Reserve Requirement, the Additional Collateral Account) shall mature or be redeemable at the option of the holder thereof within five years of the acquisition thereof. The Foundation shall direct the Trustee to invest and reinvest the moneys in any Account or Subaccount or any combination of Accounts and Subaccounts in Investment Securities so that the maturity date or redemption date at the option of the holder thereof shall coincide as nearly as practicable with the times at which moneys are needed to be so expended. In the absence of direction from the Foundation, the Trustee shall invest and reinvest the moneys in any Account or Subaccount as directed by the Indenture. The Investment Securities purchased shall be held by or on behalf of the Trustee and shall be deemed at all times to be part of such Fund, Account or Subaccount or combination thereof, and the Trustee shall inform the Foundation of the details of all such investments. Unless otherwise directed by the Foundation, the Trustee may purchase any such Investment Securities from its own investment department. If such Investment Securities include any book-entry government securities, the Trustee shall have such Investment Securities held in the name of the Trustee at the appropriate Federal Reserve Bank, and the Trustee shall take such other action as is necessary to maintain a prior perfected security interest in such book-entry Investment Securities in accordance with applicable federal regulations regarding book-entry securities. The Trustee shall sell, in accordance with usual and customary trust department procedures, or present for redemption, any Investment Securities purchased by it as an investment whenever it shall be necessary to provide moneys to meet any payment. The Trustee shall advise the Foundation in writing, on or before the eighteenth Business Day of each calendar month, of all investments held for the credit of the Trust Estate Fund and each Account and Subaccount as of the end of the preceding calendar month. On or before the fifth Business Day of each calendar month, the Trustee shall advise the Foundation of the amount of earnings on all investments allocable to the Trust Estate Fund during the preceding calendar month.

Pledge

The Obligations, including the principal thereof and interest thereon, will be payable solely from and secured under the Indenture solely by (i) the Pledged Student Loans as provided in the Indenture and (ii) any other assets pledged to secure such Obligations under a Supplemental Indenture. The Foundation is not authorized to create, and the Obligations do not constitute, a public debt of the State or any agency or political subdivision thereof within the meaning of the State Constitution or statutes or debt of the State or any agency or political subdivision thereof for any purpose whatsoever; neither the full faith and credit nor the taxing power of the State or any agency or political subdivision thereof is pledged for the payment of the Obligations. The issuance of the

Obligations does not obligate the State or empower the Foundation, directly, or indirectly or contingently to levy or collect any form of taxes or assessments, to create any indebtedness payable out of taxes or assessments, or to make any appropriation for their payment, and such appropriation, levy or collection is prohibited by law.

The Foundation pledges and agrees with the Beneficiaries that the Foundation will not voluntarily limit or alter its powers to fulfill the terms of any agreements made in the Indenture or in the Obligations or in any way impair the rights and remedies of the Beneficiaries so long as any of the Obligations are Outstanding or the Foundation shall have any obligation to the Beneficiaries and until all costs and expenses payable by the Foundation in connection with any action or proceeding by or on behalf of the Beneficiaries are fully met and discharged.

The Obligations, including the principal thereof and interest thereon, shall be equally and ratably secured under the Indenture by the foregoing pledge of the Pledged Student Loans, revenues, securities, and other moneys thereby made, and by a coequal lien thereon, except as may be otherwise provided in the Indenture, without priority with respect to any Obligation (by reason of number or otherwise) over any other Obligation. To the maximum extent permitted by applicable law, the Pledged Student Loans, revenues, securities and moneys pledged shall immediately be subject to the lien of the pledge or pledges in favor of the Beneficiaries without any physical delivery or further act, and the lien of such pledge or pledges shall be valid and binding against all parties having claims of any kind in tort, contract or otherwise against the Foundation, irrespective of whether such parties have notice of such lien. To the maximum extent permitted by applicable law, such pledge in favor of and with respect to the Beneficiaries shall constitute a prior and paramount lien and charge on the Pledged Student Loans, revenues, securities and other moneys from time to time held in accordance with the terms hereof (subject only to the valid exercise of the constitutional powers of the State or the United States of America, valid bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights or corporations, and to the provisions of the Indenture permitting the application of the Pledged Student Loans, revenues, securities and other moneys for the purposes and on the terms and conditions hereof), over and ahead of any claims (whether in tort, contract or otherwise, irrespective of whether the parties possessing such claims have notice of the foregoing pledges or charges), encumbrances or obligations of any nature hereafter arising or incurred, and over and ahead of all other indebtedness payable from or secured by such revenues which may hereafter be created or incurred. To the maximum extent permitted by applicable law, the pledge of the Pledged Student Loans, revenues, securities and other moneys made in the Indenture shall be valid and binding and shall be deemed continuously perfected for all purposes from the time of the delivery of and payment for the Obligations, and the Pledged Student Loans, revenues, securities and other moneys shall thereupon be immediately subject to the lien, pledge and charge hereof upon receipt thereof by the Foundation, or the Trustee or any agent thereof, without any physical delivery or segregation thereof or further act.

The Trustee shall release from the lien and pledge of the Indenture any Pledged Student Loan which is not an Eligible Loan if the Foundation delivers to the Trustee: (i) one or more Eligible Loans with aggregate outstanding principal balances not less than such Student Loan and which Eligible Loan or Loans are substituted by a Lender for such Student Loan pursuant to the applicable Purchase Agreement; (ii) an amount equal to the repurchase price for such Student Loan as provided in the applicable Purchase Agreement; or (iii) in the event a Lender does not repurchase such Student Loan or substitute an Eligible Loan therefor pursuant to the applicable Purchase Agreement, either an amount equal to the outstanding principal balance of such Student Loan or one or more Eligible Loans with aggregate outstanding principal balance(s) not less than such Student Loan.

The Trustee shall release Pledged Student Loans from the lien and pledge of the Indenture, upon request of the Foundation and receipt by the Trustee of: a Cash Flow Certificate with respect to such release, approved by the Insurer (which approval shall not be unreasonably withheld) and evidence, approved by the Insurer (which approval shall not be unreasonably withheld), that after such release the Parity Requirement will be met.

The Trustee shall release from the lien and pledge of the Indenture, any Pledged Student Loans sold to a purchaser upon receipt by the Trustee of: immediately available funds in full payment therefor of an aggregate purchase price of not less than the outstanding principal amount thereof plus accrued and unpaid interest and Special Allowance Payments thereon and, unless the Insurer shall consent otherwise, a Cash Flow Certificate with respect to such release, approved by the Insurer (which approval shall not be unreasonably withheld).

The Trustee shall release from the lien and pledge of the Indenture, Pledged Student Loans as specified in a Foundation Request, if prior to (or contemporaneously with) such release there shall be delivered to the Trustee Eligible Loans in substitution therefor and either:

(a) evidence, in form and content acceptable to the Trustee and the Insurer that:

i) the aggregate outstanding principal amount of the Eligible Loans delivered to the Trustee is not less than the aggregate outstanding principal amount of the Student Loans to be released;

ii) the Eligible Loans delivered to the Trustee bear the same rates of interest, are eligible, after such transaction, for the same Special Allowance Payments, are Guaranteed by the same Guarantor and have the same borrower payment status (interim, grace or repayment) as the Student Loans to be released; and

iii) subsequent to such release and delivery of Student Loans, (A) the average principal amount of all Pledged Student Loans shall not be less than the average principal amount of all Pledged Student Loans immediately prior to such transaction, and (B) the average maturity of all Pledged Student Loans shall not be more than one year longer or more than one year shorter than the average maturity of all Pledged Student Loans immediately prior to such transaction and will not extend beyond the final Maturity of the Obligations; or

(b) a Cash Flow Certificate approved by the Insurer (which approval shall not be unreasonably withheld) demonstrating that such release, after taking into account the Eligible Loans delivered to the Trustee, will not materially adversely affect the sufficiency of revenues to satisfy the obligations of the Foundation to pay Debt Service, Administrative Expenses and Note Fees pursuant to the Indenture.

Any Pledged Student Loan released from the lien and pledge of the Indenture shall no longer be pledged to, and shall no longer serve as security for, the principal of or interest on the Obligations and the Trustee shall furnish reasonable proof of the release or termination of such pledge.

The initial purchasers of the Obligations, any associate thereof and any subsequent owner of any Obligation shall in no manner be responsible for the application or disposal by the Trustee or by the Foundation or by any of either of their officers, agents and employees of the money derived from the sale of the Obligations or of any other money herein designated. The validity of the Obligations shall neither be dependent upon nor affected by the validity or regularity of any proceedings or contracts relating to the Program, nor the use and application of the proceeds of the Obligations.

The pledge of the Pledged Student Loans, revenues, securities and other moneys made by the Indenture includes the pledge of any contract or any evidence of indebtedness or other rights of the Foundation to receive any of the same, whether now existing or hereafter coming into existence, and whether now or hereafter acquired, and the proceeds thereof.

Certain Covenants

Administration of the Program

The Foundation shall administer, operate and maintain the Program in such manner as to ensure that the Program and the Pledged Student Loans will benefit to the optimum extent consistent with the Foundation's overall objectives, from the FISL Program, the Guarantee Program and the federal program of reimbursement for student loans pursuant to the Act, or from any other federal statute providing for such federal program.

Guarantee Agreements, Certificates of Insurance and Contract of Insurance

The Foundation and, to the extent directed by the Foundation, the Trustee each is required to take such actions as shall be reasonably necessary in order to maintain all Guarantee Agreements, all Certificates of Insurance and all Contracts of Insurance in force and effect and to enforce their rights thereunder diligently and will, with the prior written consent of the Insurer (which consent shall not be unreasonably withheld), enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Pledged Student Loans covered thereby (provided that the Trustee shall not be obligated to do so if such action will require the Trustee to risk its own funds or will cause the Trustee to incur any financial liability unless and until the Trustee receives a satisfactory indemnity against such risk or liability); and will not, without the prior written approval of the Insurer (which approval shall not be unreasonably withheld), voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with any Guarantee Agreement, Certificates of Insurance, or the Contract of Insurance or any similar or supplemental agreement which in any manner will adversely affect the rights of the Beneficiaries.

Administration, Enforcement and Collection of Pledged Student Loans

The Foundation shall cause all Pledged Student Loans to be administered and collected in a competent, diligent and orderly fashion and in accordance with all requirements of the Higher Education Act, the Secretary of Education, applicable regulations of the applicable Guarantors and the Indenture. The Foundation shall cause to be diligently enforced and taken all steps, actions and proceedings reasonably necessary for the enforcement of all terms, covenants and conditions of all Pledged Student Loans and agreements in connection therewith; provided that the Foundation may: grant a reasonable forbearance to an obligor or settle a default or cure a delinquency on any Pledged Student Loan on such terms as shall be permitted by law; forgive (and/or agree to forgive) principal of and accrued and unpaid interest on Pledged Student Loans to the extent that such Pledged Student Loan could have otherwise been released from the lien of the Indenture or if the Foundation shall deliver to the Trustee cash, Investment Securities and/or Eligible Loans with an aggregate value equal to the principal and interest forgiven; and write off the portion of any Student Loan remaining after payment of a Guarantee claim, any Student Loan balances of less than \$50.00 and other amounts in accordance with policies approved by the Insurer.

Limitation on Administrative Expenses and Note Fees

The Foundation covenants that the aggregate of Administrative Expenses and Note Fees paid from the Trust Estate Fund during any Note Year shall not, without the prior written consent of the Insurer, exceed the greater of: (a) amounts computed as set forth in the Indenture; or (b) such amount as shall be set forth in (or computed in accordance with) a Foundation Order delivered to the Trustee and accompanied by a Cash Flow Certificate and written evidence that the Insurer has approved limiting Administrative Expenses and Note Fees to the amount set forth in (or computed in accordance with) such Foundation Order.

Continuing Existence and Qualification

The Foundation will, except as otherwise expressly provided in the Indenture, maintain its existence as a Mississippi nonprofit corporation and its status as a nonprofit corporation and an organization described in Section 501(c)(3) of the Internal Revenue Code exempt from federal income taxation under Section 501(a) of the Internal Revenue Code (or any successor sections of a subsequent federal income tax statute or code). The Foundation will, except as otherwise expressly provided in the Indenture, remain duly qualified to do business in the State of Mississippi and will not dispose of all or substantially all of its assets, except as otherwise specifically authorized under the Indenture, or consolidate with or merge into another corporation or permit any other corporation to consolidate with or merge into it unless certain conditions specified in the Indenture are met.

Notwithstanding the foregoing, the Foundation need not continue to be a nonprofit corporation described in Section 501(c)(3) of the Internal Revenue Code, exempt from federal income taxation pursuant to

Section 501(a) of the Code if the Foundation shall have provided to the Trustee written evidence of the Insurer's consent thereto.

Student Loan Purchase Agreements

All Purchase Agreements are required to include certain provisions as specified in the Indenture, including provisions that all rights thereunder are assignable to the Trustee. The Foundation covenants that it will diligently enforce its rights under all Purchase Agreements with respect to all Pledged Eligible Loans.

Information Provided Trustee and the Insurer

To enable the Trustee and the Insurer to monitor the servicing quality and financial conditions of the Foundation and each Servicer and each Guarantor, the Foundation shall provide the Trustee and the Insurer with the following information:

(a) with respect to any Servicer, within fifteen (15) days after receipt by the Foundation, and at least once in every 12 month period, either

(i) an opinion of a nationally recognized firm of certified public accountants concerning an annual due diligence audit of the Foundation's arrangements for the servicing of Student Loans (A) addressing the Servicer's compliance with applicable requirements of the Act, the Secretary and each applicable Guarantor with respect to the servicing of Student Loans, and (B) including a statement that the Servicer is substantially in compliance with such requirements, or, if such statement is not made, a list and description of any material violations in such servicing requirements; or

(ii) with the consent of the Insurer, a copy of the Compliance Audit (Attestation Engagement) for Lenders and Lender Servicers Participating in the Federal Family Education Loan ("FFEL") Program submitted to the United States Department of Education by such Servicer addressing the assertion made by the Servicer's management that such Servicer materially complied with the FFEL Program requirements, and including a statement by a firm of certified public accountants that, in their opinion, management's assertion is or is not fairly stated in all material respects. (In the event that such Compliance Audit is not prepared by a firm of nationally recognized certified public accountants, upon request of the Insurer the Foundation shall also provide to the Trustee and the Insurer a report prepared by a firm of nationally recognized certified public accountants (or other firm of certified public accountants acceptable to the Insurer) based upon performance of "agreed upon procedures" reasonably acceptable to the Insurer. Such report shall be provided to the Trustee and the Insurer within such period of time as shall have been specified by the Insurer in connection with the Insurer's consent referred to above or, if no time period shall have been specified in connection with such consent, within such period of time as the Insurer shall request);

(b) as soon as possible, any audit examination or performance report (whether performed by internal or external auditors) received by the Foundation that has been prepared with respect to the Foundation's or any Servicer's activities under its student loan program, and the Foundation's or such Servicer's, as the case may be, response thereto (if any);

(c) promptly after receiving notice of the commencement thereof, notice of any action, suit or proceeding before any court or governmental department, commission, board, bureau, agency or instrumentality, domestic or foreign, affecting the Foundation or any Servicer and which could have a material adverse effect upon either the financial condition of the Foundation or such Servicer or the ability of the Foundation or the Servicer to perform its obligations in connection with the Student Loans included in the Trust Estate;

(d) as soon as possible and in any event within 5 days after knowledge of the Foundation of the occurrence thereof, notice of any default or event of default under any Servicing Agreement, any Guarantee Agreement or any other material agreement relating to the servicing and payment of the Student Loans included in the Trust Estate;

(e) copies of annual financial statements of each Guarantor, to the extent available to the Foundation;

(f) within thirty (30) days of the end of each calendar quarter, a report with respect to Student Loans included in the Trust Estate as of the end of such calendar quarter, in the form set forth in the Indenture;

(g) notice, at least annually, of variations exceeding ten percent (10%) in the timing of Financing of Eligible Loans or the types of Eligible Loans Financed as compared to the timing and types of Eligible Loans set forth in the Indenture;

(h) any reports, when available, with respect to interest rates on the Notes prepared by the Auction Agent in accordance with the Auction Agent Agreement for the Foundation or the Trustee promptly upon receipt;

(i) copies of Servicing Agreements, if any, entered into by the Foundation, promptly after execution thereof;

(j) semiannual unaudited interim financial statements of the Foundation, containing both balance sheets and revenue statements;

(k) as soon as available, a copy of any audit examination, lender review or performance or other report received by the Foundation that has been prepared with respect to the Foundation's activity under the Program and the Foundation's response thereto, if any;

(l) notice of intent to release (pursuant to the Indenture) Student Loans with an Aggregate Market Value in excess of 5% of the Aggregate Market Value of all Student Loans held as part of the Trust Estate, not less than five (5) days prior to such release;

(m) Cash Flow Certificates promptly after the occurrence of any Event of Default or the occurrence of any event which, with the giving of notice or the passage of time, will become an Event of Default;

(n) such other information respecting the business, properties, condition or operations, financial or otherwise, of the Foundation, any Servicer and any Guarantor as the Trustee or the Insurer may reasonably request from time to time to the extent available to the Foundation and the Foundation is not prohibited from releasing.

Servicing Agreements

The Foundation will not enter into any Servicing Agreement pursuant to which Pledged Student Loans will be serviced or any material amendment to any such Servicing Agreement without the prior written consent of the Insurer, which consent shall not be unreasonably withheld.

The Foundation will not consent (to the extent, if any, that the Foundation's consent is required) to any Servicer's transferring material components of its computer servicing operations from an existing application system to a new application system (a "Servicer System Conversion") unless the Insurer has been notified of, and has consented to, the proposed timing and extent of such Servicer System Conversion. Within thirty (30) days

following the completion of any Servicer System Conversion, the Foundation shall provide the Insurer with such information as the Insurer shall reasonably request and as shall be available to the Foundation concerning the operation and efficiency of the Servicer's system following such Servicer System Conversion. Unless the Insurer shall consent otherwise, the Foundation will use its best efforts to cause an audit of the Servicer's operations as described in the Indenture to be performed within 60 days following completion of any such Servicer System Conversion.

In the event that any report prepared pursuant to the Indenture shall indicate that a Servicer is not substantially in compliance with the requirements referred to in the Indenture, upon request of the Insurer the Foundation will, as promptly as practical, make arrangements for Pledged Student Loans serviced by such Servicer to be serviced by another Servicer.

Repurchase of Certain Loans

The Foundation will "repurchase" from the Trust Estate any Student Loan that is no longer Guaranteed as a result of improper origination thereof by the Foundation, at a price equal to the outstanding principal amount of such Student Loan plus accrued borrower interest, Interest Benefits Payments and Special Allowance Payments. The Foundation will use its best efforts to enforce the obligation of any Lender to repurchase any Student Loan that is no longer Guaranteed as a result of improper origination thereof by such Lender, at a price equal to the outstanding principal amount of such Student Loans plus accrued borrower interest, Interest Benefits Payments and Special Allowance Payments.

Amendments to Certain Documents

The Foundation will not, without the Insurer's prior written consent which shall not be unreasonably withheld, consent to any amendment, modification or termination of, or grant any waiver under, or consent to, or voluntarily permit or voluntarily suffer to occur any action or omission which results in, or is the equivalent of, any amendment, modification, termination or grant of waiver under: (i) the Indenture; or (ii) any Servicing Agreement (to the extent applicable to Pledged Student Loans), or Purchase Agreement (to the extent applicable to Pledged Student Loans).

Trustee's Duties to Monitor Servicing

The Trustee shall be deemed to have satisfied its obligation to monitor the Foundation's obligations with respect to Pledged Student Loans if the Trustee requires the provision of and reviews the information required to be provided to the Trustee by the Indenture.

In the event such information indicates, in the reasonable judgment of the Trustee, that the Pledged Student Loans are not being serviced in accordance with the requirements of the Indenture, the Trustee will then specify in writing any deficiencies that, in its judgment, require correction. The Foundation's failure to correct the deficiencies specified by the Trustee shall constitute a breach of the Foundation's obligations under the Indenture unless, within 30 days (or such longer period as the Trustee may approve) thereafter, the Foundation shall have submitted to the Trustee a certificate of a firm of Independent Certified Public Accountants reasonably acceptable to the Trustee to the effect that either (a) correction of the deficiencies specified is not required to enable the Foundation to substantially comply with the Indenture, or (b) failure to correct the specified deficiencies will not adversely affect the Foundation's ability to collect substantially all principal and interest payments and all other sums to which the Foundation or the Trustee is entitled pursuant to any Purchase Agreement and all grants, subsidies, donations, insurance payments, Special Allowance Payments and all Guarantee or Insurance payments from any Guarantor or from the Secretary of Education relating to the Pledged Student Loans.

Encumbrances

The Foundation warrants that it is duly authorized under all applicable law to create and issue the Obligations to enter into the Indenture and to pledge the revenues and other moneys, Pledged Student Loans, securities, properties, rights, interests and evidences of indebtedness purported to be pledged by the Indenture in the manner and to the extent provided in the Indenture. The Obligations and the provisions of the Indenture, and each Supplement to the Indenture, are and will be valid and legally enforceable obligations of the Foundation in accordance with their terms and the terms of the Indenture. The Foundation shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the revenues and other moneys, Pledged Student Loans, securities, properties, rights, interest and evidences of indebtedness pledged under the Indenture and each Supplement to the Indenture and all the rights of the Beneficiaries thereto against all claims and demands of all persons whomsoever.

In consideration of the purchase and acceptance of the Obligations by those who shall hold the same from time to time, the provisions of the Indenture shall be a part of the contract of the Foundation with the Holders of the Obligations and shall be deemed to be, and shall constitute, a contract among the Foundation, the Trustee and the Holders from time to time of the Obligations.

The revenues and other moneys, Pledged Student Loans, securities, evidences of indebtedness, interests, rights and properties pledged under the Indenture are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, of equal rank with or subordinate to the pledge created by the Indenture, except as otherwise expressly provided herein, and all action on the part of the Foundation to that end has been and will be duly and validly taken. The Foundation may, without notice to or the consent of any party other than the Insurer, create any lien subordinate to the lien of the Indenture in connection with the execution of an indenture authorizing the issuance of bonds, notes or other obligations of the Foundation the proceeds of which will be used to defease all Outstanding Obligations pursuant to the Indenture; provided that no such subordinate lien shall be created without the prior written consent of the Insurer (which shall not be unreasonably withheld); and provided that nothing in the Indenture shall prevent the Foundation from issuing obligations secured by assets and revenues of the Foundation other than the revenues and other moneys, securities, properties, rights, interests and evidences of indebtedness pledged in the Indenture.

Events of Default and Remedies

Events of Default

The occurrence of any of the following events, whatever the reason therefor and whether voluntary or involuntary or effected by operation of law, shall constitute an Event of Default.

(a) default in the due and punctual payment of any principal of or interest on any Obligation (in which event interest shall be payable to the extent permitted by law on the overdue amounts, in each case at the interest rate borne by the Obligation in respect of which such payment is overdue); or

(b) default in the due and punctual payment of any amount owed to the Insurer; or

(c) default in the performance or observance of any of the other covenants, agreements or conditions on the part of the Foundation contained in the Indenture, and such default shall have continued for a period of thirty (30) days after written notice thereof, specifying such default, shall have been given by the Trustee to the Foundation, or by the Holders of not less than ten percent (10%) in aggregate principal amount of the Outstanding Obligations or the Insurer to the Foundation and the Trustee; or

(d) (i) the Foundation shall (A) make a general assignment for the benefit of its creditors, (B) apply for or consent to the appointment of or the taking of possession by any custodian, receiver, liquidator or trustee for it or a substantial part of its property, (C) admit in writing its inability, or be generally unable, to pay its

debts as such debts become due, (D) commence a voluntary case under the Federal Bankruptcy Code (as now or hereafter in effect), (E) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts, or (F) take any action for the purpose of effecting any of the foregoing, or (ii) (A) a proceeding or case shall be commenced in any court of competent jurisdiction seeking the liquidation, reorganization, dissolution, winding-up or composition or readjustment of debts of the Foundation or the appointment of a trustee, receiver, custodian, liquidator or the like of the Foundation, or of all or a substantial part of its property under the Federal Bankruptcy Code or any law relating to bankruptcy, insolvency, reorganization, winding-up or composition or adjustment of debts; and (B) such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect for a period of ninety (90) days from commencement of such proceeding or case, or an order for relief or any similar order shall be entered in such proceeding or case.

Acceleration

Whenever any Event of Default described in (a) or (b) above shall have occurred and be continuing, the Trustee, may, with the prior written consent of the Insurer, and shall, upon the written request of the Insurer or, if an Insurer Default shall have occurred, the Holders of fifty percent (50%) of the aggregate principal amount of the Obligations Outstanding, by notice in writing delivered to the Foundation, declare the principal of and interest accrued on all Obligations then Outstanding due and payable as provided below.

Whenever any Event of Default described in (c) above shall have occurred and be continuing the Trustee shall, upon the written request of the Insurer or, if an Insurer Default shall have occurred, the Holders of eighty percent (80%) of the aggregate Outstanding principal amount of Obligations Outstanding, by notice in writing delivered to the Foundation, declare the principal of and interest on all Obligations then Outstanding due and payable as provided below.

Whenever any Event of Default described in (d) above shall have occurred and be continuing, the Trustee may, with the prior written consent of the Insurer, by notice in writing delivered to the Foundation, declare the principal of and interest on all Obligations then Outstanding due and payable as provided in the immediately succeeding paragraph.

In the event that the Trustee shall declare the principal of and interest accrued on all Obligations then Outstanding due and payable, such principal and interest shall become immediately due and payable on the date of declaration. At any time after such a declaration of acceleration has been made, but before a judgment or decree for payment of the money due has been obtained by the Trustee, the Trustee may with the prior written consent of the Insurer, and shall, upon written direction of the Insurer, by written notice to the Foundation, rescind and annul such declaration and its consequences if all Events of Default, other than the non-payment of the principal of and interest on Obligations which have become due solely by such declaration of acceleration, have been cured or waived.

No such rescission and annulment shall affect any subsequent default or impair any right consequent thereon.

Other Remedies; Rights of Beneficiaries

If an Event of Default has occurred and is continuing, the Trustee may, with the prior written consent of the Insurer, pursue any available remedy by suit at law or in equity to enforce the covenants of the Foundation in the Indenture, including, without limitation, any remedy of a secured party under the Mississippi Uniform Commercial Code, foreclosure, mandamus and specific performance and may, with the prior written consent of the Insurer, pursue such appropriate judicial proceedings as the Trustee shall deem most effective to protect and enforce, or aid in the protection and enforcement of, the covenants and agreements in the Indenture.

If any Event of Default shall have occurred and be continuing, and if it shall have been requested to do so by the Holders of in excess of fifty percent (50%) of the aggregate Outstanding principal amount of

Obligations Outstanding, and if the Trustee shall have been indemnified, the Trustee shall be obliged to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee, being advised by its Counsel, shall deem most expedient in the interests of the Beneficiaries; provided, however, that the Trustee shall have the right to decline to comply with any such request if the Trustee shall be advised by Counsel that the action so requested may not lawfully be taken and the Trustee shall not take any such action without the Insurer's prior written consent.

No remedy by the terms of the Indenture conferred upon or reserved to the Trustee or the Beneficiaries is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given to the Trustee or the Beneficiaries thereunder or now or hereafter existing at law or in equity or by statute. The assertion or employment of any right or remedy under the Indenture shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

No delay or omission to exercise any right or power accruing upon any Event of Default shall impair any such right or power or shall be construed to be a waiver of any such Event of Default or acquiescence therein; and every such right and power may be exercised from time to time and as often as may be deemed expedient by the Trustee, subject to the prior written consent of the Insurer.

No waiver of any default or Event of Default under the Indenture, whether by the Trustee (with the prior written consent of the Insurer) or by any or all Beneficiaries, shall extend to or shall affect any subsequent default or Event of Default or shall impair any rights or remedies consequent thereon.

Direction of Proceedings by Insurer or Holders Upon Default

The Insurer at any time that no Insurer Default shall have occurred, and otherwise the Holders of in excess of fifty percent (50%) of the aggregate Outstanding principal amount of Obligations Outstanding shall have the right by an instrument or instruments in writing executed and delivered to the Trustee, to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture; provided that (a) such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture; (b) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Beneficiaries not taking part in such direction; and (c) the Trustee may, with the prior written consent of the Insurer, take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Application of Moneys Upon Event of Default

Upon and after the occurrence of any Event of Default, all moneys held by the Trustee pursuant to the Indenture and subject to the lien of the Indenture, or received by the Trustee pursuant to any right given or action taken under the applicable provisions of the Indenture shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee with respect thereto, be applied as follows:

(a) Unless the principal of all the Obligations shall have become or shall have been declared due and payable, all such moneys shall be applied to the payment to the persons entitled thereto of all installments of principal and interest then due on the Obligations, and if the amount available shall not be sufficient to pay all such principal, interest and amounts owed in full, then to the payment ratably, according to the amounts due, without regard to due date, to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all Obligations shall have become due or shall have been declared due and payable and such declaration has not been annulled and rescinded, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Obligations, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Obligation over any other Obligation, ratably, according to the amounts due, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Obligations shall have been declared due and payable, and if such declaration shall thereafter have been rescinded and annulled under the provisions of the Indenture or otherwise, then (subject to the provisions described in paragraph (b) immediately above in the event that the principal of all the Obligations shall later become due or be declared due and payable) the moneys shall be applied in accordance with the provisions of paragraph (a) immediately above.

For purposes of the foregoing, the Insurer shall be subrogated to rights to receive interest and principal on any Obligations, to the extent that such interest and principal shall have been paid by the Insurer pursuant to the Insurance Policy.

Whenever moneys are to be applied by the Trustee pursuant to the provisions described in the Indenture, such moneys shall be applied by it at such times, and from time to time, as the Trustee shall determine, having due regard to the amount of such moneys available for application and the likelihood of additional moneys becoming available for such application in the future. Whenever the Trustee shall apply such funds, it shall fix the date (which shall be an Interest Payment Date with respect to any Obligation unless it shall deem another date more suitable) upon which such application is to be made and upon such date interest on the amounts to be paid shall cease to accrue. The Trustee shall give such notice as it may deem appropriate of the deposit with it of any such moneys and of the fixing of any such date, and shall not be required to make payment to the Holder of any unpaid Obligation until such Obligation shall be presented to the Trustee for appropriate endorsement or for cancellation if fully paid.

Whenever all Obligations and interest thereon have been fully paid and all expenses and charges of the Trustee have been paid, the Foundation and the Trustee shall be restored to their former positions under the Indenture.

Remedies Vested in Trustee

All rights of action, including the right to file proof of claims under the Indenture or under any of the Obligations, may be enforced by the Trustee (with the prior written consent of the Insurer) without the possession of any of the Obligations or the production thereof in any trial or other proceedings relating thereto, and any such suit or proceeding instituted by the Trustee (with the prior written consent of the Insurer) shall be brought in its name as Trustee without the necessity of joining as plaintiffs or defendants any Holders of the Obligations, and any recovery of judgment shall be for the equal benefit of the Holders of the Obligations (or Beneficiaries) in respect of which such judgment has been recovered (except any right of any Swap Counterparty to receive payments of any amounts owed which are not Swap Payments shall be subordinate to the rights of all other Beneficiaries).

Limitation on Suits By Holders

No Holder of any Obligation other than the Insurer shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust of the Indenture or for the appointment of a receiver or any other remedy under the Indenture unless (a) an Event of Default described in subparagraph (a) under "Events of Default" above and an Insurer Default shall have occurred and be continuing, (b) the Holders of not less than twenty-five percent (25%) in aggregate principal amount of Obligations then Outstanding shall have made written request to the Trustee, (c) such Holder or Holders shall have offered to the Trustee indemnity, as provided in the Indenture, (d) the Trustee shall thereafter have failed for a period of thirty (30) days after the receipt of the request and indemnification to exercise the powers granted in the Indenture or to institute such action, suit or proceeding in its own name and (e) no direction inconsistent with such written request shall have been given to the Trustee during such thirty-day period by the Holders of a majority in principal amount of the Outstanding Obligations; it being understood and intended that no one or more Holders of the Obligations (other than the Insurer) shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by its, his, her or their action or to enforce any right thereunder except in the manner in the Indenture provided, and that all proceedings at law or in equity shall be instituted, had and maintained in the manner

provided in the Indenture and for the equal benefit of the Holders of all Outstanding Obligations (or, if applicable, all Beneficiaries).

Undertaking for Costs

The Foundation and the Trustee agree, and each Holder of any Obligation (other than the Insurer) by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under the Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant other than the Trustee in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but such provisions shall not apply to any suit instituted by the Trustee, to any suit instituted by the Insurer or by any Holder or group of Holders holding in the aggregate more than ten percent (10%) in aggregate principal amount of the Outstanding Obligations, or to any suit instituted by any Holder for the enforcement of the payment of the principal of or interest on any Obligation on or after the respective Stated Maturities expressed in such Obligation (or, in the case of redemption, on or after the Redemption Date).

Waiver of Events of Default

The Trustee may, with the prior written consent of the Insurer, waive any Event of Default and its consequences, and is required to waive any Event of Default and its consequences upon written request of the Insurer, at any time that no Insurer Default shall have occurred, and otherwise upon the written request of the Holders of in excess of fifty percent (50%) of the aggregate Outstanding principal amount of the Obligations Outstanding; provided, however, that there shall not be waived (a) any Event of Default in the payment of the principal of any Outstanding Obligations at their Stated Maturity or (b) any Event of Default in the payment when due of the interest on any Obligations, without the consent of the Holders of such Obligations. No such waiver shall extend to any subsequent or other default or Event of Default, or impair any right consequent thereon.

Notice to Holders and Other Beneficiaries if Default Occurs

The Trustee is required to give to the Insurer, in the manner provided in the Indenture, notice of all Events of Default known to the Trustee, within thirty (30) days after the occurrence of such Event of Default. The Trustee shall give to all Holders, in the manner provided in the Indenture, notice of all Events of Default known to the Trustee, within thirty (30) days after the occurrence of such Event of Default, unless such Event of Default shall have been cured before the giving of such notice; provided that, except in the case of Events of Default in the payment of the principal of or interest on any of the Obligations, the Trustee shall be protected in withholding such notice to the Holders if the Trustee in good faith determines that the withholding of such notice is in the interest of the Holders.

Insurer treated as Holder of Notes

At any time that no Insurer Default shall have occurred, for purposes of Article Five of the Indenture (Defaults and Remedies) and Article Six of the Indenture (The Trustee, The Market Agent and The Auction Agent) the Insurer shall be treated as the Holder of all Outstanding Obligations.

The Trustee

General

Except during the continuance of an Event of Default, (a) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in the Indenture, and no implied covenants or obligations shall be read into the Indenture against the Trustee; and (b) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon statements, certificates or opinions furnished to the Trustee and conforming to the requirements of the Indenture; in

the case of any such statements, certificates or opinions which by any provisions of the Indenture are specifically required to be furnished to the Trustee, the Trustee shall be under a duty only to examine the same and in good faith to determine whether or not they conform to the requirements of the Indenture.

In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by the Indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs, subject to the provisions of the next succeeding paragraph.

Anything elsewhere in the Indenture to the contrary notwithstanding, no provision of the Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

- (a) this paragraph shall not limit the effect of the first paragraph of this section;
- (b) the Trustee shall not be liable for any error of judgment made in good faith, unless it shall be proved that the Trustee was negligent in attempting to ascertain the pertinent facts;
- (c) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of the Holders of fifty percent (50%) in principal amount of the Outstanding Obligations relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under the Indenture; and
- (d) anything elsewhere in the Indenture to the contrary notwithstanding, the Trustee shall not be required to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties under the Indenture, or in the exercise of any of its rights or powers, unless and until the Trustee receives a satisfactory indemnity against such risk or liability.

The Trustee may execute any of the trusts or powers and perform any of its duties by or through attorneys, agents, receivers, or employees but shall be answerable for the conduct of the same in accordance with the standard specified in the second paragraph of this section, subject, however, to the applicable provisions of the third paragraph of this section, and shall be entitled to and may require as a condition to any determination or other action under the Indenture advice of Counsel. The Trustee may, in all cases, pay reasonable compensation to any such Persons. The Trustee may act upon the opinion or advice of any Counsel or Accountant selected by it in the exercise of reasonable care. The Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice.

The Trustee shall not be responsible for any recital in the Indenture or in the Obligations (except with respect to any certificate of the Trustee endorsed on the Obligations), or for the investment of moneys (except to the extent such investment is in violation of a provision of the Indenture), or for the filing or refiling of the Indenture or any Supplemental Indenture or for the validity of the execution by the Foundation of the Indenture or any Supplemental Indenture or instrument of further assurance, or for the sufficiency of the security for any of the Obligations issued under the Indenture or intended to be secured by the Indenture, or for any disclosure to prospective purchasers of the Obligations in any preliminary offering memorandum or offering memorandum distributed in connection with the sale of Obligations, other than any portions thereof relating to the Trustee.

The Trustee shall not be accountable for the use or application by the Foundation of any of the Obligations or the proceeds thereof or for the use or application of any money paid over by the Trustee in accordance with the provisions of the Indenture. The Trustee may become owner of the Obligations secured by the Indenture with the same rights it would have if it were not the Trustee.

The Trustee shall be protected in acting upon any notice, order, requisition, request, consent, certificate, order, opinion (including an opinion of Counsel), affidavit, letter, telegram or other paper or document in good faith deemed by it to be genuine and correct and to have been signed or sent by the proper Person or Persons.

Any action taken by the Trustee pursuant to the Indenture, upon the request or authority or consent of any Person who at the time of making such request or giving such authority or consent is the Holder of any Obligation, shall be conclusive and binding upon all future Holders of the same Obligation and all Obligations issued in exchange therefor or in place thereof.

As to the existence or nonexistence of any fact or as to the sufficiency or authenticity of any instrument, paper or proceeding, the Trustee shall be entitled to rely upon a certificate of the Foundation, signed by an Authorized Officer, as sufficient evidence of the facts stated therein.

The Trustee shall not be required to give any bond or surety.

Before taking any action under the Indenture requested by Holders, the Insurer, the Foundation, any other Beneficiary or any other Person, the Trustee may require that it be furnished an indemnity bond or other indemnity satisfactory to it for the reimbursement of all expenses to which it may be put and to protect it against all liability, except liability which results from the negligence or willful misconduct of the Trustee, by reason of any action so taken by the Trustee.

The Trustee shall periodically request the Foundation to execute and thereafter file Uniform Commercial Code continuation statements and take such other actions required to maintain and continue the perfection of any security interests granted by the Foundation as debtor to the Trustee as secured party under the Indenture.

The Trustee covenants, represents and agrees that:

(a) it is an Eligible Lender (as defined in the Act) and that while the Obligations are Outstanding and further during the time it has title to any Pledged Student Loans acquired pursuant to the terms of the Indenture, it will use its best efforts to remain an Eligible Lender;

(b) it will not exercise any of the rights, duties, or privileges under the Indenture in such manner as would cause the Pledged Student Loans held or acquired under the Indenture to be transferred, assigned, or pledged as security to any person or entity other than an Eligible Lender so long as the Act prohibits the same; provided, however, that in the exercise of any of the above stated rights, duties, or privileges the Trustee may rely upon Foundation Orders and any and all representations by the Foundation and its agents, including, but not limited to, the applicable Servicer and shall be fully protected in so relying;

(c) it will comply with the requirements of the Act as specified by the Foundation insofar as they relate to the Trustee's duties under the Indenture, and will, upon written notice from the Foundation, the Secretary, or any Guarantor, use its best efforts to cause the Indenture to be amended in accordance with the procedures described therein if the Act is hereafter amended so as to be contrary to the terms of the Indenture; and

(d) the Trustee is acting as an Eligible Lender on behalf of the Foundation, and as a trustee of the Trust Estate on behalf of the Beneficiaries, in accordance with the terms of the Indenture.

The parties acknowledge that, pursuant to the Servicing Agreements, the Servicers shall be responsible for the physical custody and preservation of Pledged Student Loans and the supporting documents submitted to and received by it and that the Trustee shall have no responsibility therefor.

The parties recognize that the Trustee has (or will have) special contractual obligations and rights with respect to USAF and Other Qualified Guarantors which must be maintained and preserved in order for the Trustee to remain an Eligible Lender, and the Trustee specifically covenants to use its best efforts to maintain its obligations and enforce its rights under any such contracts during the administration of the trust.

Lien of Trustee for Fees and Expenses

The Trustee shall be entitled to payment and/or reimbursement for its ordinary fees and for reasonable fees for all other services rendered under the Indenture and for all advances, legal fees, and other expenses reasonably made or incurred by it under the Indenture. At any time that an Event of Default shall have occurred and be continuing, the Trustee shall have a lien on the Trust Estate and shall have a right of payment of its fees, advances, legal fees and expenses prior to any payments with respect to Beneficiaries.

Intervention by Trustee

In any judicial proceeding to which the Foundation is a party and which in the opinion of the Trustee and its Counsel has a substantial bearing on the interest of the Beneficiaries, the Trustee may, with the prior written consent of the Insurer, intervene on behalf of the Beneficiaries and shall do so if requested in writing by the Holders of at least twenty-five percent (25%) of the aggregate principal amount of the Outstanding Obligations or any Beneficiary, but only if the Trustee is compensated for such action. The rights and obligations of the Trustee under this paragraph are subject to the approval of a court of competent jurisdiction in the premises.

Corporate Trustee Required; Eligibility

There shall at all times be a trustee under the Indenture which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, and shall be an "eligible lender" under the Act, having a combined capital stock, capital surplus and undivided profits of at least \$50,000,000, subject to supervision or examination by a federal or state authority.

Resignation By Trustee

The Trustee may at any time resign by giving sixty (60) days written notice to the Foundation and the Insurer and, by first class mail, to all Beneficiaries, and such resignation shall take effect upon the appointment of a successor Trustee.

Removal of Trustee

The Trustee may be removed at any time by an instrument signed by the Foundation and the Insurer and filed with the Trustee and shall be removed by the Foundation if at any time so requested by an instrument or concurrent instruments in writing, filed with the Trustee and the Foundation, and signed by the Insurer and specifying material breaches of the Trustee's obligations under the Indenture or, at any time that an Insurer Default shall have occurred and be continuing, by the Holders of not less than seventy-five percent (75%) in aggregate principal amount of the Obligations then Outstanding (or their attorneys-in-fact duly authorized), excluding any Obligations held by or for the account of the Foundation. Notwithstanding the foregoing, the Trustee may not be removed unless and until a successor trustee has been appointed pursuant to the Indenture.

Appointment of Successor Trustee

In case the Trustee shall resign or be removed, or be dissolved or otherwise become incapable of acting under the Indenture, or in case it shall be taken under the control of any public officer or officers, or of a receiver appointed by a court, the Foundation may, with the prior written consent of the Insurer (which shall not be unreasonably withheld), remove the Trustee and shall, with the prior written consent of the Insurer (which shall not be unreasonably withheld) promptly appoint a successor. If no successor trustee has been appointed as provided in the Indenture after ninety (90) days from the mailing of notice of resignation by the Trustee, or from the date the Trustee is removed or otherwise incapable of acting under the Indenture, any Beneficiary may petition a court of competent jurisdiction to appoint a successor trustee.

Successor Trustee

Any corporation, association or agency into which the Trustee may be converted or merged, or with which it may be consolidated, or to which it may sell or transfer its trust business and assets as a whole or substantially as a whole, or any corporation or association resulting from any such conversion, sale, merger, consolidation or transfer to which it is a party, ipso facto, shall be and become successor Trustee and vested with all of the trusts, powers, discretions, immunities, privileges and all other matters as was its predecessor, without the execution or filing of any instrument or any further act, deed or conveyance on the part of any of the parties to the Indenture, anything in the Indenture to the contrary notwithstanding.

Supplemental Indentures

The provisions of the Indenture may be amended at any time and from time to time for any purpose provided that: (a) at any time that the Insurance Policy shall be in force and effect and no Insurer Default shall have occurred and be continuing, no such amendment shall be effective until the Trustee shall have received written evidence of the Insurer's approval thereof; (b) no such amendment shall be effective until the Trustee shall have received written evidence that such amendment will not cause a reduction or withdrawal or any ratings then applicable to the Obligations; and (c) no such amendment to the provisions of the Indenture relating to the Auction Procedures and certain other matters or to the definitions set forth in the Indenture, to the extent that such modification would materially alter the meaning of the provisions relating to the Auction Procedures and certain other matters, shall be effective unless and until (i) notice shall have been given to all Holders describing (or including a copy of) the amendment, and (ii) either: (A) Sufficient Clearing Bids shall be received (or all Obligations that are Notes shall be subject to Hold Orders) at the first Auction not less than fifteen (15) days subsequent to such notice; or (B) all Obligations shall have been purchased pursuant to a Conversion on or prior to the effective date of such amendment.

Upon request of the Foundation, the Trustee shall enter into any supplemental indenture requested by the Foundation; provided that if, in the opinion of the Trustee, any such Supplemental Indenture materially adversely affects the rights, duties or immunities of the Trustee under the Indenture or otherwise, the Trustee may, in its discretion, decline to execute such Supplemental Indenture. The Trustee shall be entitled to receive, and shall be fully protected in relying upon, an opinion of Counsel as conclusive evidence that any such Supplemental Indenture conforms to the requirements of the Indenture.

Discharge of Indenture

Discharge of Liens and Pledges; Obligations No Longer Outstanding and Deemed to be Paid Under the Indenture

The obligations of the Foundation under the Indenture, and the liens, pledges, charges, trusts, covenants and agreements of the Foundation therein made or provided for, shall be fully discharged and satisfied as to any Obligation, and such Obligation shall no longer be deemed to be Outstanding under the Indenture:

(a) when such Obligation shall have been canceled; and

(b) as to any Obligation not canceled, when payment of the principal of such Obligation, plus interest on such principal to the due date thereof (whether such due date be by reason of maturity, call for redemption or otherwise), either (i) shall have been made or caused to be made in accordance with the terms of the Indenture, or (ii) shall have been provided for by irrevocably depositing with the Trustee and irrevocably appropriating and setting aside exclusively for such payment (A) moneys sufficient to make such payment or (B) Government Obligations (or any combination thereof) maturing as to principal and interest in such amount and at such times as will ensure the availability of sufficient moneys to make such payment and (1) the Foundation shall have delivered to the Trustee and the Insurer evidence, verified by an Independent certified public accountant acceptable to the Trustee, that such moneys, if any, together with amounts to be received with respect to such Government Obligations, will be sufficient for such purpose and (2) all necessary and proper fees, compensation and expenses of

the Trustee and the Insurer pertaining to the Obligations with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of the Trustee and the Trustee and the Insurer shall have received an opinion, in form and content reasonably acceptable to the Trustee, to the effect that such Obligation or Obligations have been defeased pursuant to the provisions of the Indenture therefor.

Any Obligation shall be deemed to be no longer Outstanding under the Indenture and shall cease to accrue interest from the due date thereof (whether such due date be by reason of maturity, call for redemption or otherwise) and such Obligation, except for the purposes of any such payment from such moneys or Government Obligations, shall no longer be secured by or entitled to the benefits of the Indenture.

Notwithstanding the foregoing, no deposit described under clause (b)(ii) above shall constitute such payment, discharge and satisfaction as aforesaid, as to any such Obligations which are to be redeemed prior to their stated maturity, until proper notice of such redemption shall have been previously given in accordance with the Indenture or provision satisfactory to the Trustee shall have been irrevocably made for the giving of such notice.

Any such moneys so deposited with the Trustee may at the direction of the Foundation also be invested and reinvested in Government Obligations, maturing in the amounts and times as in the Indenture set forth, and all income from all such investments in the hands of the Trustee which is not required for the payment of the Obligations and interest thereon with respect to which such moneys shall have been so deposited shall, if the Foundation shall have delivered to the Trustee evidence, verified by a certified public accountant acceptable to the Trustee, that the moneys then held by the Trustee, together with amounts to be received with respect to Government Obligations held by the Trustee, will be sufficient to pay all principal of and interest on such Obligations, be paid to the Foundation and if any Obligations are then outstanding, shall be deposited in the Fund or Account into which investment earnings on proceeds of the Obligations were deposited, as and when realized and collected, for use and application as are other moneys credited to such Fund or Account; or otherwise as determined by the Trustee to be appropriate.

Notwithstanding any other provision of the Indenture, all moneys or Government Obligations set aside and held in trust pursuant to the provisions described above for the payment of the principal of and interest on Obligations shall, to the extent needed for such purpose, be applied to and used solely for the payment of the principal of and interest on the particular Obligations with respect to which such moneys and investments have been so set aside in trust.

Any moneys or Investment Securities held by the Trustee for the Holder of Obligations remaining unclaimed for one (1) year after the latest Maturity of the principal of any Obligation (whether at maturity, upon call for redemption or otherwise) shall without further request by the Foundation be paid by the Trustee to the Foundation against a written receipt therefor and thereafter the Trustee shall have no liability with respect to such moneys.

SUMMARY OF CURRENT CASH FLOW PROJECTION

Smith Barney Inc., at the request of the Foundation, has prepared a current cash flow projection (the "Current Cash Flow Projection"), using assumptions described in APPENDIX D to illustrate the expected receipt of revenues to be received by the Foundation and the expected expenditures to be incurred in connection with the Notes and the Pledged Student Loans held under the Indenture.

The Foundation expects, and the Current Cash Flow Projection indicates, that the Pledged Student Loans and other assets held in the Trust Estate Fund will provide revenues sufficient to pay principal of and interest on the Notes when due, and also to pay the annual cost of all Trustee fees, servicing costs and other expenses related to the Notes and the Pledged Student Loans held under the Indenture until the final maturity of the Notes.

RISK FACTORS

The payment by the Foundation of the principal of and interest on the Notes is subject to certain risks. Particular attention should be given to the factors described below which, among others, could materially and adversely affect the payment by the Foundation of debt service on the Notes, and which could also materially and adversely affect the market price of the Notes to an extent that cannot be determined. This section of this Offering Memorandum does not include all risks to which such repayment by the Foundation is subject, but is an attempt to summarize certain of such risks. Each prospective purchaser of the Notes should read this Offering Memorandum in its entirety.

(i) Failure to Comply with Loan Origination and Servicing Procedures. The Act and the applicable regulations require the lenders making Student Loans, guarantee agencies guaranteeing Student Loans and lenders and third-party servicers servicing Student Loans to follow certain due diligence procedures in an effort to insure that Student Loans are properly made and disbursed to, and timely repaid by, the borrowers. The procedures to make, guarantee and service Eligible Loans are specifically set forth in Part 682 of Title 34 of the Code of Federal Regulations (particularly 34 C.F.R. §§682.206-208, .406, .411, .500 and .507) and no attempt has been made in this Offering Memorandum to completely describe those procedures. Generally, however, those procedures require lenders to process completed loan applications, determine whether an applicant is an eligible borrower under the Act, determine the loan amount, explain to the borrowers their responsibilities under the loan, have the borrower execute a promissory note, and finally disburse the loan proceeds. Once a borrower becomes delinquent in repaying a loan, the holder (the Trustee as owner of the loan) must perform certain collection procedures (primarily telephone calls and demand letters) which vary depending upon the length of time a loan is delinquent.

The procedures referred to in the preceding paragraph following disbursement of a Student Loan are generally performed for the Trustee by the Servicers, as third-party servicers. Effective July 1, 1994, the Secretary of the Department of Education adopted new regulations amending the Student Assistance General Provisions and Federal Family Education Loan Program ("FFELP") regulations, affecting third-party servicers. These regulations, among other things, establish requirements governing contracts between institutions and third-party servicers, strengthen sanctions against institutions for violations of the program requirements of the Act, establish similar sanctions for third-party servicers and establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a guarantee agency's or lender's participation in the FFELP. Under these regulations, third-party servicers such as UNIPAC and SunTech are jointly and severally liable with their client lenders for liabilities to the Secretary arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the regulations, or violates other FFELP requirements, the regulations authorize the Secretary to fine the servicer and/or limit, suspend or terminate the servicer's eligibility to contract to service FFELP loans. The effect of such a limitation or termination on the servicer's eligibility to service loans already on the system or new loans for servicing under existing contracts is unclear. There can be no assurance that a servicer will not be held liable by the Secretary for liabilities arising out of its FFELP activities for client lenders or that its eligibility will not be limited, suspended or terminated in the future.

Failure to follow such procedures and meet such standards may result in the Secretary's refusal to make reinsurance payments to a Guarantor on such loans or in a Guarantor's refusal to honor its guarantee on such loans to the Trustee. Failure of Guarantors to receive reinsurance payments from the Secretary could adversely affect their ability to honor guarantee claims made by the Trustee, and loss of guarantee payments to the Trustee by Guarantors could adversely affect the ability to pay principal and interest on the Notes. The Trustee has the right to resell the Pledged Student Loans to a Seller under certain circumstances or recover any lost guarantee from the Servicer who failed to properly service such Loans. See "THE GUARANTEE PROGRAM." However, there is no guarantee a Seller or a Servicer would be able to pay for such losses.

(ii) Actual Cash Flow Results May Be Materially and Adversely Different; Inability of Trustee to Liquidate Pledged Student Loans. Actual receipt of revenues or actual expenditure results may vary greatly from the Current Cash Flow Projection which eventually may result in the inability of the Foundation to pay

principal of and interest on the Notes when due. In such event, the Indenture authorizes the Trustee to declare an Event of Default, accelerate the payment of the Notes, and sell the Pledged Student Loans and all other assets of the Trust Estate. It may be difficult to find a purchaser in a timely manner, if at all, and the Pledged Student Loans may be sold below their par value, possibly resulting in an insufficient amount of money to pay all principal of and accrued interest on the Notes.

(iii) Prepayment of Pledged Student Loans. Pledged Student Loans may be prepaid by borrowers at any time. (For this purpose the term “prepayments” includes prepayments in full or in part (including pursuant to the FFELP Consolidation Loan Program and the Federal Direct Consolidation Loan Program) and liquidations due to default (including receipt of payments under the Guarantee Program). The rate of prepayments on the Pledged Student Loans may be influenced by a variety of economic, social and other factors affecting borrowers, including interest rates, the availability of alternative financing and the general job market for graduates of institutions of higher education. In addition, under certain circumstances, the seller of the Student Loan will be obligated to repurchase, or the Servicer will be obligated to purchase, Pledged Student Loans from the Trust Estate as a result of breaches of their respective representations, warranties or covenants in their respective agreements with the Corporation. The volume of Pledged Student Loans that may be consolidated through the FFELP Consolidation Loan Program or the Federal Direct Consolidation Loan Program or that may be purchased or repurchased from the Trust Estate is not determinable at this time.

(iv) Changes in the Act. In recent years federally enacted legislation has made substantial changes to the current guaranteed education loan programs under the Act. Among other things, such legislation has established a Federal Direct Student Loan Program and amended the Act in ways which affect existing programs. See APPENDIX C --“DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.” No prior amendments have been retrospective in their application to loans originated or disbursed prior to the effective date of such amendments. Nevertheless, there can be no assurance that the Act will be reauthorized by Congress or that such reauthorization will not change current provisions of the Act or that future amendments will not be made to all or portions of the Act, any or all of which may materially adversely affect the sufficiency of the Guaranteed Loans constituting the Trust Estate and the revenues to be derived with respect to the Trust Estate will be sufficient to pay the principal of and interest on the Notes, as and when due.

(v) Pending Reauthorization of the Act. Post July 1, 1998 Interest Rate Changes and Reimbursement of Guarantors. Reauthorization of the Act is currently pending in Congress. Among many other things, currently pending reauthorization proposes the following:

Reversal of Scheduled July 1, 1998 Interest Rate Computation Changes. The Omnibus Budget Reconciliation Act of 1993 (“OBRA”) amended the Act to change the formulae for borrower interest rates and special allowance payments under the FFELP, effective July 1, 1998. Specifically, OBRA (i) changed the interest index for the FFELP formulae for interest rates on loans, interest subsidy payments and special allowance payments from the bond equivalent yield on 91-day Treasury Bills to the bond equivalent yield on “securities with a comparable maturity (to the Loans) as determined by the Secretary” (“CMI” or “Comparable Maturity Index”) (e.g., 10-year Treasury Notes), and (ii) modified applicable maximum interest rates. Under OBRA, to establish the annual interest rates on loans (including Interest Subsidy Payments on behalf of eligible borrowers), the CMI is to be determined on the immediately preceding June 1 for each annual period beginning on July 1 and ending on June 30. Also under OBRA, to establish quarterly Special Allowance Payments to eligible holders of loans, the CMI based interest rate on the loan is subtracted from the CMI, after which 1.0% is added to the resultant percent, and the resultant percent is divided by 4. These changes apply to subsidized or unsubsidized Stafford Loans and PLUS loans made, insured or guaranteed under FFELP, and for which the first disbursement is made on or after July 1, 1998. Unless modified by a change in the law, the applicable rates of interest for loans to which these changes apply are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	CMI + 1.0%	8.25%
PLUS Loans	CMI + 2.1%	9.00%

On June 9, 1998, President Clinton signed Public Law 105-78. Section 8301 of P.L. 105-178 establishes the following borrower rates of interest for loans to which the provisions would apply as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 1.7% (in-school, grace and deferment periods)	8.25%
	91-Day T-Bill + 2.3% (repayment periods)	8.25%
PLUS Loans	91-Day T-Bill + 3.1%	9.0%

P.L. 105.178 establishes the following lender/holder rates of return for loans to which the provisions would apply as follows:

<u>Loan Type</u>	<u>Rate of Return</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 2.2% (in-school, grace and deferment periods)
	91-Day T-Bill + 2.8% (repayment periods)
PLUS Loans	91-Day T-Bill + 3.1%

These changes apply to subsidized or unsubsidized Stafford Loans and PLUS loans made, insured or guaranteed under FFELP and for which the first disbursement is made on or after July 1, 1998 and before October 1, 1998.

On May 6, 1998, the U.S. House of Representatives passed H.R. 6, the Higher Education Amendments of 1998, by a vote of 414-4. Among other things, H.R. 6 provides for the extension of the Act through Federal Fiscal Year 2004 and authorizes appropriations for, and provides for the duration of, each program conducted under the Act. Included in H.R. 6, as amended by the House Committee on Education and the Workforce on March 19, 1998, are provisions amending the prior OBRA changes to the Act discussed above to return to a 91-day Treasury Bill based index. Under the legislation the applicable borrower rates of interest for loans to which the provisions would apply are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 1.7% (in-school, grace and deferment periods)	8.25%
	91-Day T-Bill + 2.3% (repayment periods)	8.25%
PLUS Loans	91-Day T-Bill + 3.1%	9.0%

Under the legislation, the applicable lender/holder rates of return for loans to which the provisions would apply are as follows:

<u>Loan Type</u>	<u>Rate of Return</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 2.2% (in-school, grace and deferment periods)
	91-Day T-Bill + 2.8% (repayment periods)
PLUS Loans	91-Day T-Bill + 3.1%

Under the legislation, both the borrower interest rate and lender rate of return would be determined on the immediately preceding June 1 for each annual period beginning on July 1 and ending on June 30. Also, under the legislation, to establish quarterly Special Allowance Payments to eligible holders of loans, the borrower interest rate is subtracted from the lender/holder rate of return, and then the resultant percent is divided by 4.

On July 9, 1998, the U.S. Senate approved its version of the Higher Education Amendments of 1998 (also H.R. 6) by a vote of 96 to 1. Among other things, the legislation provides for the extension of the Act through Federal Fiscal Year 2003 and authorizes appropriations for and provides for the duration of, each program authorized by the Act. Included in the Senate-passed version of H.R. 6 are borrower interest rate provisions and lender/holder return provisions identical to those in the legislation approved by the House of Representatives.

Conferees of the House of Representatives and U.S. Senate will meet to reconcile differences between the House and Senate passed versions of the legislation. Following resolution of differences and passage of the legislation in identical form by the House and Senate, the legislation will be presented to the President for approval. There can be no assurance that the President will sign the legislation or, if the President vetoes this legislation, that the veto will be overridden by Congress.

On July 6, 1998, the Department of Education announced the interest rates for variable rate loans made under the William D. Ford Federal Direct Loan and Federal Family Education Loan programs for the period July 1, 1998 through June 30, 1999. For Direct Subsidized Consolidation and Direct Unsubsidized Consolidation Loans for which the first disbursement is made on or after July 1, 1998, or for which the consolidation loan application is received by the Secretary on or after July 1, 1998, the applicable borrower interest rates are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford Consolidation Loans	91-Day T-Bill + 1.7% (in-school, grace and deferment periods)	8.25%
	91-Day T-Bill + 2.3% (repayment periods)	8.25%
PLUS Consolidation Loans	91-Day T-Bill + 3.1%	9.0%

The Higher Education Amendments of 1998 (S. 1882/H.R. 6) may change the borrower interest rates applicable to Consolidations Loans. The House bill proposes basing consolidation loan interest rates on a formula based on the weighted average of the interest rates on the loans being consolidated, while the Senate has no proposal for changing rates on consolidation loans. Those Members of Congress charged with negotiating the differing provisions of the two versions of the legislation will have to propose a new formula for consolidation loan interest rates during conference committee negotiations.

(vi) Noncompliance with Act. Under the Act, Lenders making and servicing Student Loans, third-party servicers of Student Loans and Guarantors are required to follow specified procedures, including, but not limited to, due diligence procedures, to ensure among other things that (i) Student Loans are properly made and disbursed to or for the benefit of and repaid by eligible borrowers, (ii) applicable origination, guaranty and other fees are properly paid, (iii) claims for applicable interest subsidy payments and special allowance payments are

properly made and (iv) default claims to Guarantors or the Secretary, as applicable, are properly made. The Trustee and the Corporation fully intend to comply or cause the Servicers to comply with all requirements of the Act with respect to such matters. However, there can be no assurance that failures or delays in compliance with the requirements of the Act with respect to Student Loans in the Trust Estate and the revenues to be derived with respect to the Trust Estate will be sufficient to pay the principal of and interest on the Notes, as and when due.

(vii) Financial Status of Guarantors. In the event the financial status of any Guarantor and its ability to honor guarantee claims were to deteriorate over time, such event may result in an inability to make guarantee payments to the Trustee. One of the primary reasons for a possible deterioration in a Guarantor's financial status is related to the amount and percentage of loans guaranteed by a Guarantor which were made to students attending proprietary or trade schools. Historically, proprietary school loans have defaulted at rates much higher than loans made to students or parents of students attending four-year schools or two-year schools. As described under the caption "THE GUARANTEE PROGRAM", the percentage of federal reimbursement to a Guarantor of Student Loans is based upon the amount of federal reimbursement payments made to such a Guarantor as a percentage of the principal amount of such Guarantor's guaranteed loans in repayment at the end of the preceding fiscal year. Default claims above specified percentile levels, as calculated annually, result in a reduction in the amount of federal reimbursement paid by the Department of Education to a Guarantor. For loans originated prior to October 1, 1993, such reimbursement is not less than 80% of the amount of any eligible reimbursement claim. A reduction in reimbursements resulting from default rates could thus financially weaken the Guarantor and cause the Guarantor's reserve fund to fall below levels necessary in order to pay claims submitted by lenders. Under the 1992 Reauthorization to the Act, the Secretary will collect annually information from each Guarantor to determine the Guarantor's solvency. If the Guarantor fails to meet the requirements of the 1992 Reauthorization, the Secretary may terminate the Guarantor's reinsurance contract with the Secretary and, among other things, permit the transfer of guarantees to another Guarantor or to the Secretary for the payment by the Secretary of any claims with respect thereto. If the Secretary has determined that a Guarantor is unable to meet its insurance obligations, the holder of loans insured by the Guarantor may submit insurance claims directly to the Secretary and the Secretary will pay to the holder the full insurance obligation of the Guarantor, in accordance with insurance requirements no more stringent than those of the Guarantor. Such arrangements will continue until the Secretary is satisfied that the insurance obligations have been transferred to another Guarantor who can meet those obligations or a successor will assume the outstanding insurance obligations. There can be no assurance, however, that the Secretary will ever make such a determination or will do so in a timely manner. The Reauthorization Bill also provided that the Secretary is authorized, on terms and conditions satisfactory to the Secretary, to make advances to a Guarantor in order to assist the Guarantor in meeting its immediate cash needs and to ensure uninterrupted payment of default claims by lenders. See APPENDIX C, "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

The Student Loan Reform Act of 1993 also contains certain amendments affecting Guarantors, such as reducing the reinsurance rates from the Secretary for Student Loans made after October 1, 1993 and reducing the default collection retention rate. The Secretary was also given authority to recover and restrict the use of Guarantor reserve funds under certain circumstances. See "THE GUARANTEE PROGRAM" and APPENDIX C, "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

(viii) Financial Status of Any Swap Counterparty Provider or a Swap Counterparty Guarantee. Whenever a Swap Agreement relating to any Series of Notes is executed, at such times that the interest rate being paid by a Swap Counterparty is greater than the interest rate being paid by the Foundation, the Trustee's ability to make principal and interest payments on the Notes may be affected by such Swap Counterparty's ability or the ability of any provider of a Swap Counterparty Guarantee to meet its net payment obligation to the Trustee.

(ix) General Economic Conditions. Certain general economic conditions such as a downturn in the economy resulting in increasing unemployment either regionally or nationally may result in an increase in defaults by borrowers in repaying Student Loans, thus causing increased default claims to be paid by Guarantors. It is impossible to predict the status of the economy or unemployment levels or at which point a downturn in the economy would impair a Guarantor's ability to pay default claims. See "THE GUARANTEE PROGRAM".

(x) Enforceability of Remedies. The remedies available to the Trustee, the Corporation or Noteholders upon an Event of Default under the Indenture are in many respects dependent upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code (the federal bankruptcy code), the remedies provided in the Indenture may not be readily available or may be limited. The various legal opinions delivered concurrently with the delivery of the Notes are qualified as to the enforceability of the various legal instruments by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

(xi) Consolidation of Federal Benefit Billing and Receipts and Guarantor Claims with Other Trust Estates. Due to a recent change in the Department of Education's policy with respect to the granting of new lender identification numbers, the availability of such numbers has become restricted. As a result, it may be necessary for the Trustee to permit other student loan trust estates established by the Foundation, or other issuers of obligations securitized by student loans, to utilize the Department of Education lender identification number that is being used by the Trustee for the Trust Estate created under the Indenture. In that event, the billings submitted to the Department of Education for Interest Subsidy and Special Allowance Payments on Pledged Student Loans would be consolidated with the billings for such payments for student loans in other trust estates using the same lender identification number, and payments on such billings would be made by the Department of Education in lump sum form. Such lump sum payments would then be allocated among the various trust estates using the same lender identification number.

In addition, the sharing of the lender identification number by the Trust Estate with other trust estates may result in the receipt of claim payments by the Guarantors in lump sum form. In that event, such payments would be allocated among the trust estates in a manner similar to the allocation process for Interest Subsidy and Special Allowance Payments.

The Department of Education regards the Trustee as the party primarily responsible to the Department of Education for any liabilities owed to the Department or the Guarantors resulting from the Trustee's activities in the FFELP. As a result, if the Department or a Guarantor were to determine that the Trustee owes a liability to the Department or such Guarantor on any student loan included in a trust estate using the shared lender identification number, the Department or such Guarantor would be likely to collect that liability by offset against amounts due the Trustee under the shared lender identification number, including amounts owed in connection with the Trust Estate.

In addition, other trust estates using the shared lender identification number may in a given calendar quarter incur consolidation origination fees that exceed the Interest Subsidy and Special Allowance Payments payable by the Department of Education on the loans in such other trust estates, resulting in the consolidated payment from the Department received by the Trustee under such lender identification number for the quarter equaling an amount that is less than the amount owed by the Department on the Pledged Student Loans in the Trust Estate for that quarter.

ERISA CONSIDERATIONS

By virtue of activities unrelated to the issuance and underwriting of the Notes, the Foundation, the Trust Estate, the Underwriter, parties associated with the Student Loans (including the sellers, servicers, lenders and borrowers thereof), and their affiliates may be considered to be, with respect to an employee benefit plan, a "party in interest," within the meaning of section 3(14) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or a "disqualified person" within the meaning of section 4975(e)(2) of the Internal Revenue Code. An acquisition of the Notes by any such plan may constitute a "prohibited transaction" within the meaning of ERISA and the Internal Revenue Code unless the acquisition is made pursuant to an exemption, such as the exemption for certain transactions effected on behalf of such plan by a "qualified professional asset manager" as defined in and satisfying the terms and conditions of the exemption or pursuant to any other available exemption. Any such plan proposing to invest in the Notes should consult with its legal counsel.

UNITED STATES FEDERAL INCOME TAX WITHHOLDING

Under Section 3406 of the Internal Revenue Code, a Beneficial Owner of the Notes may, under certain circumstances, be subject to "backup withholding" on payment of current or accrued interest on the Notes and any Carry-over Amount (and interest accrued thereon). This withholding applies if the Beneficial Owner of the Notes: (i) fails to furnish to the Trustee such Beneficial Owner's social security number or other taxpayer identification number ("TIN"); (ii) furnishes the Trustee an incorrect TIN; (iii) fails to report properly interest or dividends and has been notified by the Internal Revenue Service of such failure; or (iv) under certain circumstances, fails to provide the Trustee or such registered Holder's Securities broker with a certified statement, signed under penalty of perjury that the TIN provided to the Trustee is correct and that such registered owner is not subject to backup withholding. The withholding rate is 31% of reportable payments, which include interest payments.

In addition, if a Beneficial Owner is a non-United States Beneficial Owner certain other rules apply. A non-United States Beneficial Owner is a Beneficial Owner that is a non-resident alien, a foreign corporation, a foreign partnership or a foreign trust, estate or beneficiary all as defined in the Internal Revenue Code. If the interest is effectively connected with the conduct of the Beneficial Owner's trade or business within the United States, the interest will be taxable; however, there will be no withholding as long as form 4224 is provided to the Trustee prior to the payment of such interest. In addition, where the interest is not effectively connected with a non-United States Beneficial Owner's conduct of a trade or business in the United States, the interest (including original issue discount, if any) will neither be taxable to the non-United States Beneficial Owner nor subject to withholding on interest unless (i) such non-United States Beneficial Owner is a direct or indirect 10% or greater shareholder of, or a controlled foreign corporation related to, the Foundation, (ii) such non-United States registered Holder is a bank and the interest is received pursuant to a loan agreement entered into in the ordinary course of its trade or business or (iii) the exemption contained in the following paragraph is not met. The withholding rate on payments to non-United States Beneficial Owners subject to backup withholding is 30%.

To qualify for the exemption from taxation and withholding referred to in the preceding paragraph, the obligation must be in registered form and the last United States person in the chain of payment prior to payment to a non-United States Beneficial Owner (the "Withholding Agent") must have received in the year in which a payment of interest or principal occurs, or in either of the two preceding years, a statement that (i) is signed by the Beneficial Owner under penalties of perjury, (ii) certifies that such owner is not a United States Beneficial Owner, and (iii) provides the name and address of the Beneficial Owner. The statement may be made on Form W-8 published by the Internal Revenue Service or substantially similar form. The Beneficial Owner must inform the Withholding Agent of any change in the information included in the statement within thirty (30) days of such change. If a Note is held through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent. However, in such case, the signed statement must be accompanied by a copy of a Form W-8 or substitute form provided by the Beneficial Owner to the clearing organization or other institution holding the Notes on behalf of the Beneficial Owner.

Generally, any gain upon retirement or disposition of a Note by a non-United States Beneficial Owner will not be subject to federal income taxes in respect of such amount unless, in the case of a non-United States Beneficial Owner who is a nonresident alien individual, the Beneficial Owner is present in the United States for 183 days or more in the taxable year of sale.

THE FEDERAL INCOME TAX DISCUSSION SET FORTH ABOVE IS INCLUDED FOR GENERAL INFORMATION ONLY AND MAY NOT BE APPLICABLE DEPENDING UPON A BENEFICIAL OWNER'S PARTICULAR SITUATION. BENEFICIAL OWNERS SHOULD CONSULT THEIR TAX ADVISORS WITH RESPECT TO THE TAX CONSEQUENCES TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE NOTES, INCLUDING THE TAX CONSEQUENCES UNDER STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN FEDERAL OR OTHER TAX LAWS.

The Trustee will furnish, or will cause to be furnished, within a reasonable time after the end of each calendar year and as required by the Internal Revenue Code, information to each Beneficial Owner of the Notes regarding income and principal distributed to Beneficial Owners of the Notes, and regarding such other information as is necessary to enable Beneficial Owners of the Notes to prepare their tax returns.

ABSENCE OF LITIGATION

There is no litigation of any nature now pending or threatened to restrain or enjoin the issuance, sale, execution or delivery of the Notes, or in any way contesting or affecting the validity of (i) the Notes, including the Additional Notes, (ii) any proceedings of the Foundation taken with respect to the issuance or sale of the Notes, (iii) the pledge or application of any moneys or securities provided for the payment or security of the Notes, or (iv) the due existence or powers of the Foundation.

FINANCIAL STATEMENTS OF THE FOUNDATION

The financial statements of the Foundation for the year ended December 31, 1997, included in APPENDIX G, have been audited by Haddox Reid Burkes & Calhoun PLLC, independent public accountants, as stated in their report appearing therein. Also included in APPENDIX G are unaudited financial statements for the five-month period ended May 31, 1998 prepared by the Foundation.

CONTINUING DISCLOSURE

The Foundation is an obligated person with respect to the Notes under Rule 15c2-12 of the Securities Exchange Act of 1934 (the "Rule") and, accordingly, has agreed, for the benefit of the Holders and Beneficial Owners from time to time of the Notes, to provide or cause to be provided certain financial information and operating data ("Annual Information"), financial statements and notices in such manner as may be required for purposes of paragraph (b)(5)(i) of the Rule (the "Continuing Disclosure Agreement"), including specifically the following:

- A. To each nationally recognized municipal securities information repository designated from time to time by the Securities and Exchange Commission ("NRMSIR") and to any Mississippi state information depository ("SID"):
 - 1. Annual Information for each fiscal year of the Foundation ending on or after December 31, 1998, not later than 180 days following the end of each such fiscal year (the "Filing Date"), consisting of the annual financial information and operating data included herein in the section captioned "THE FOUNDATION -- Outstanding Student Loans and Asset-Backed Obligations", in the first paragraph of the section captioned "THE STUDENT LOAN PURCHASE PROGRAM -- Description of Student Loans to be Financed". The Foundation expects that Annual Information will be provided directly by the Foundation or, in part, by cross reference to other documents previously provided to each NRMSIR and any SID, or to another final Offering Memorandum or other disclosure document of the Foundation filed with the Municipal Securities Rulemaking Board ("MSRB").
 - 2. The Foundation's financial statements for each fiscal year ending on or after December 31, 1998. The Foundation expects that such financial statements will be audited and will be prepared in accordance with generally accepted accounting principles and that they will be submitted as part of the Annual Information or when otherwise available.
- B. To each NRMSIR, and to any SID, in a timely manner, notice of:

1. The occurrence of any of the following events, within the meaning of the Rule, with respect to the Notes, if material:
 - (1) principal and interest payment delinquencies;
 - (2) non-payment related defaults;
 - (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) modifications to rights of Holders or beneficial owners;
 - (7) calls for redemption;
 - (8) defeasances;
 - (9) release, substitution, or sale of property securing repayment of the Notes; and
 - (10) rating changes.
2. The Foundation's failure to provide the Annual Information within the time specified above.
3. Any change in the accounting principles applied in the preparation of its annual financial statements, any change in its fiscal year.

If the Trustee has not received the Annual Information by the close of business on the 15th Business Day preceding the Filing Date, the Trustee shall provide a notice to the Foundation not later than its close of business on the next Business Day. If evidence of the timely filing of the Annual Information is not delivered to the Trustee by 3:00 p.m. on the second Business Day following the Filing Date, the Trustee shall provide a notice to such effect to each NRMSIR and to any SID, not later than its close of business on such Business Day.

The Continuing Disclosure Agreement may be amended, and noncompliance with any provisions of the Continuing Disclosure Agreement may be waived, as may be necessary or appropriate to achieve its compliance with any applicable federal securities law or rule, to cure any ambiguity, inconsistency or formal defect or omission, and to address any change in circumstances arising from a change in legal requirements, change in law, or change in the identity, nature, or status of the Foundation, or type of business conducted by the Foundation. Any such amendment or waiver will not be effective unless the Continuing Disclosure Agreement (as amended or taking into account such waiver) would have complied with the requirements of the Rule at the time of each primary offering of the Notes, after taking into account any applicable amendments to or official interpretations of the Rule, as well as any change in circumstances, and until the Foundation and the Trustee shall have received either (i) a written opinion of note or other qualified independent special counsel selected by the Foundation, or a determination by the Trustee, that the amendment or waiver would not materially impair the interests of the Holders or Beneficial Owners of the Notes, or (ii) the written consent to the amendment or waiver of the Holders of at least a majority of the principal amount of the Notes then outstanding.

The Continuing Disclosure Agreement is solely for the benefit of the Holders and the Beneficial Owners from time to time of the Notes. The exclusive remedy for any breach of the Continuing Disclosure Agreement by the Foundation is limited to the extent permitted by law to a right of Holders and Beneficial Owners of the Notes, or the Trustee, to institute and maintain, or cause to be instituted and maintained, on behalf of such Holders and Beneficial Owners, such proceedings as may be authorized at law or in equity to obtain the specific

performance by the Foundation of its obligations under the Continuing Disclosure Agreement. The Trustee may exercise any such right and, if requested to do so by the Holders or Beneficial Owners of at least 25% in aggregate principal amount of the Notes then outstanding, the Trustee shall exercise any such right, subject in each case to the same conditions, limitations and procedures that would apply under the Indenture if the breach were an Event of Default under the Indenture. In addition, any Holder or Beneficial Owner may exercise any such right; provided that, except in the instance of an alleged failure of the Foundation to provide or cause to be provided a pertinent filing if such a filing is due and has not been made, any such right shall be exercised in the same manner and subject to the same conditions and limitations that would apply under the Indenture if the breach were an Event of Default under the Indenture. See "THE INDENTURE-Events of Default and Remedies". Notwithstanding the foregoing, a default under the Continuing Disclosure Agreement shall not be deemed an Event of Default under the Indenture.

The Continuing Disclosure Agreement will remain in effect only for such period that the Notes are outstanding in accordance with their terms and the Foundation remains an obligated person with respect to the Notes within the meaning of the Rule. The obligation of the Foundation to provide the Annual Information, financial statements and notices of the events described above will terminate if and when the Foundation no longer remains such an obligated person.

The Foundation has not been required to make, and has not made, any previous continuing disclosure agreement for purposes of the Rule other than the Continuing Disclosure Agreement.

The following NRMSIRs exist at this time: Bloomberg Municipal Repository, Princeton, New Jersey; and Thompson NRMSIR and Kenney Information Systems, Inc., each of New York, New York; and DPC Data, Inc., Fort Lee, New Jersey.

LEGAL MATTERS

The validity of the Notes, including each portion issued from time to time, is subject to the approving legal opinion of Watkins Ludlam Winter & Stennis, P.A., Jackson, Mississippi, Bond Counsel. Watkins Ludlam Winter & Stennis, P.A. serves as general counsel to the Foundation and is serving as corporate counsel to the Foundation in connection with issuance of the Notes. In its capacity as corporate counsel to the Foundation, Watkins Ludlam Winter & Stennis, P.A. will pass upon certain legal matters for the Foundation. Certain legal matters will be passed upon for the Underwriter by its counsel, Calfee, Halter & Griswold LLP, Cleveland, Ohio.

THE MBIA INSURANCE CORPORATION INSURANCE POLICY

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Offering Memorandum. Reference is made to Appendix H for a specimen of the Insurer's policy.

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

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Note or loss of any Carry-over Amount (and any interest accrued thereon). The Insurer's policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an

accelerated basis; (iii) payments of the purchase price of Insured Notes upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Insured Notes resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Insured Notes.

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

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

Effective February 17, 1998, the Company acquired all of the outstanding stock of Capital Markets Assurance Corporation ("CMAC") through a merger with its parent CapMAC Holdings Inc. Pursuant to a reinsurance agreement, CMAC has ceded all of its net insured risks (including any amounts due but unpaid from third party reinsurers), as well as its unearned premiums and contingency reserves to the Insurer. The Company is not obligated to pay the debts of or claims against CMAC.

As of December 31, 1997, the Insurer had admitted assets of \$5.3 billion (audited), total liabilities of \$3.5 billion (audited), and total capital and surplus of \$1.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 1998, the Insurer had admitted assets of \$5.4 billion (unaudited), total liabilities of \$3.6 billion (unaudited), and total capital and surplus of \$1.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

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

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

Fitch rates the claims paying ability of the Insurer "AAA".

Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., rates the claims paying ability of the Insurer "AAA".

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

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

RATINGS

It is a condition to the purchase of Notes by or sale through the Underwriter that Moody's and Fitch (the "Rating Agencies") assign the ratings of "Aaa" and "AAA", respectively, to such Notes upon issuance by the Insurer of its policy insuring regularly scheduled payments of principal of and interest on such Notes. It is a condition to the issuance of Additional Notes that the delivery of such Notes will not adversely affect the respective ratings of Moody's and Fitch with respect to the Outstanding Notes. (See "THE MBIA INSURANCE CORPORATION INSURANCE POLICY" herein.)

The above ratings are not recommendations to buy, sell or hold the Notes, and such ratings may be subject to revision or withdrawal at any time by the Rating Agencies. Any downward revision or withdrawal of either or any rating may have an adverse effect on the market price of the Notes. Such ratings reflect only the view of each respective Rating Agency and any explanation of the significance of the rating should be obtained from such Rating Agency.

The Foundation has furnished and will furnish to such Rating Agencies certain information and materials, some of which have not been included in this Offering Memorandum. Generally, a Rating Agency bases its rating on such information and materials and investigations, studies and assumptions furnished to and obtained and made by the Rating Agency. There is no assurance that any such rating will apply for any given period of time or that it will not be lowered or withdrawn entirely if, in the judgment of the Rating Agency, circumstances so warrant.

UNDERWRITING

In connection with the issuance of any Additional Notes, a note purchase contract will provide that Smith Barney Inc., as Underwriter, will purchase, or will cause to be purchased, through an auction all of the Notes being offered if any are purchased. The Foundation has agreed to indemnify the Underwriter against certain liabilities in connection with the sale of the Notes. Such indemnification is limited to the Pledged Student Loans.

The Underwriter may offer and sell any such Notes to certain dealers (including dealers depositing Notes into unit investment trusts) and others at prices lower than the public offering price stated on any Supplement hereto. Such initial offering prices may be changed from time to time by the Underwriter.

The execution, delivery and distribution of this Offering Memorandum have been duly authorized by the Foundation.

EDUCATION SERVICES FOUNDATION

By: /s/ Tom B. Scott
Tom B. Scott, Jr., President

By: /s/ Kenneth L. Smith, Jr.
Kenneth L. Smith, Jr., Executive Director

Dated: July 22, 1998

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\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996

APPENDIX A

DEFINITIONS OF CERTAIN TERMS

The following are definitions of certain terms used herein and in the Indenture.

"Account" shall mean any Account and Subaccount established by the Indenture.

"Acquisition Account" shall mean the Acquisition Account created and established by the Indenture.

"Act" or "Higher Education Act" shall mean Title IV, Part B and Part F of the Higher Education Amendments of 1965, as amended, or any successor federal act, and all regulations, directives and guidelines promulgated thereunder from time to time.

"Act of Bankruptcy of the Foundation" shall mean the filing of a petition by or against the Foundation under any bankruptcy act or under any similar law which may be hereafter enacted.

"Administrative Expenses" shall mean the Foundation's expenses, including any Servicing Fees, of carrying out and administering its powers, duties and functions under (1) its charter of incorporation, its bylaws, the Purchase Agreements, the Participation Agreement, the Contract of Insurance, any Certificate of Insurance, any Guarantee Agreement, the Program, the Act or any requirement of the laws of the United States or the State with respect to the Program or any requirement of any regulations promulgated pursuant to such laws, as such powers, duties and functions relate to Pledged Student Loans, and (2) the Indenture, insofar as such costs relate to the Obligations. Such expenses may include, without limiting the generality of the foregoing, salaries, supplies, utilities, mailing, labor, materials, office rent, maintenance, furnishings, equipment, machinery, telephones, insurance premiums, and legal, accounting, management, consulting and banking services and expenses, and payments for pension, retirement, health and hospitalization and life and disability insurance benefits; but shall not include (i) Debt Service on the Obligations; (ii) debt service on any other bonds, notes or other evidences of indebtedness of the Foundation; (iii) Note Fees; or (iv) the fees, costs or expenses of the Foundation with respect to any other bonds, notes or indebtedness of the Foundation.

"Aggregate Market Value" on any date shall mean, with respect to assets in the Trust Estate which are Eligible Loans: unless the Insurer shall have notified the Foundation and the Trustee that an amendment to the Higher Education Act or any other law of the United States adopted after the Date of Issuance will reduce the effective rate of return with respect to the Pledged Student Loans by in excess of .15%, the aggregate unpaid principal balance (including, to the extent Guaranteed, interest added to principal) of such loans as of that date plus 100% of the accrued borrower interest, Special Allowance Payments and interest subsidies on such Eligible Loans to such date; and if the Insurer shall have notified the Foundation and the Trustee that an amendment to the Higher Education Act or any other law of the United States adopted after the Date of Issuance will reduce the effective rate of return with respect to any of the Pledged Student Loans by in excess of .15%, a lesser amount equal to the present value, as of the date of computation, of the aggregate of all payments to be received on or with respect to such Pledged Student Loans, discounted with respect to each Pledged Student Loan at the yield which would have been available to the Foundation if such amendment had not been adopted, assuming that:

1. all payments of principal and interest and all Special Allowance Payments will be received on the same day in each calendar month in which they are due; and

2. the 91-day Treasury bill rate will be equal to the bond equivalent rate of the 91-day Treasury bills auctioned at the most recent auction of 91-day Treasury bills preceding the computation date.

"All-Hold Rate," or "All-Hold Auction Rate" on any date of determination, shall be the interest rate per annum equal to eighty percent (80%) of the Applicable Libor-Based Rate on such date; provided, that in no event shall the All-Hold Rate be more than the Maximum Rate.

"Applicable LIBOR-Based Rate" shall mean, (a) for Auction Periods of 35 days or less, One-Month LIBOR, (b) for Auction Periods of more than 35 days but less than 91 days, Three-Month LIBOR, (c) for Auction Periods of more than 90 days but less than 181 days, Six-Month LIBOR, and (d) for Auction Periods of more than 180 days, One-Year LIBOR.

"Auction" shall mean the implementation of the Auction Procedures on an Auction Date.

"Auction Agent" shall mean the Initial Auction Agent under the Initial Auction Agent Agreement unless and until a Substitute Auction Agent Agreement becomes effective (with the prior written consent of the Insurer which consent shall not be unreasonably withheld), after which Auction Agent shall mean the Substitute Auction Agent.

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

"Auction Agent Fee" shall mean the Auction Agent Fee as defined in the Auction Agent Agreement.

"Auction Agent Fee Rate" shall have the meaning as set forth in the Auction Agent Agreement.

"Auction Date" or "Auction Rate Determination Date" shall mean the date on which the rate of interest to be borne by the Notes for the succeeding Auction Period is determined in accordance with the Indenture, which date shall be, subject to modification as provided in the Indenture, the first Business Day preceding the first day of such Auction Period other than an Auction Period commencing (i) after the ownership of Obligations bearing interest at Auction Rates is no longer maintained in Book-entry Form, (ii) after and during the continuance of a Payment Default, or (iii) less than two Business Days after the cure or waiver of a Payment Default.

"Auction Period" shall mean a period generally beginning on a Monday (provided that such Monday is a Business Day and otherwise on the next succeeding Business Day) and ending on the fourth Sunday thereafter (provided that the next succeeding Monday is a Business Day and otherwise on the day preceding the next succeeding Business Day), as the same may be changed pursuant to the Indenture. If the first day of any Auction Period would otherwise be a day other than a Business Day, such Auction Period shall begin on the next succeeding Business Day; and if the last day of any Auction Period would otherwise immediately precede a day which is not a Business Day, such Auction Period shall end on the last day preceding the next succeeding Business Day.

"Auction Period Adjustment" shall mean an adjustment to the length of an Auction Period as provided in the Indenture.

"Auction Period Commencement Date" shall mean with respect to Obligations while they are Outstanding as Auction Rate Securities, the date on which each Auction Period commences.

"Auction Procedures" shall mean the procedures described in APPENDIX E, "AUCTION PROCEDURES".

"Auction Rate" shall mean the rate of interest per annum that results from implementation of the Auction Procedures.

"Auction Rate Adjustment Date" shall mean any date on which the rate of interest borne by the Obligations is subject to change, as set forth in the Indenture, which shall be the first day of each Auction Period.

"Auction Rate Determination Date" shall have the meaning set forth in the definition of "Auction Date."

"Auction Rate Securities" shall mean all obligations, including the Notes, for which the interest period is an auction period.

"Authenticating Agent" shall mean the Trustee.

"Authorized Denominations" shall mean any denomination in which Obligations may be issued.

"Authorized Officer" when used with reference to the Foundation shall mean the president, any vice president, the executive director or other person designated in writing to the Trustee from time to time by the Board of Directors of the Foundation.

"Available Auction Rate Securities" shall have the meaning set forth in APPENDIX E, "AUCTION PROCEDURES".

"Available Funds" shall mean moneys or Government Obligations which shall have been on deposit with the Trustee for a period in excess of 123 days during which no Act of Bankruptcy of the Foundation shall have occurred, Government Obligations purchased with Available Funds or moneys held by the Trustee with respect to which, at the time, the Trustee shall have received an unqualified opinion of nationally recognized bankruptcy counsel acceptable to the Trustee to the effect that any use of such moneys to pay principal of or interest on any Obligations would not be an "avoidable preference" under the United States Bankruptcy Code upon any bankruptcy of the Foundation.

"Balance" when used with reference to any Fund or Account shall mean the aggregate sum of the all assets standing to the credit of such Fund or Account, including without limitation: Investment Securities computed at the Value of Investment Securities; Pledged Eligible Loans computed at the Aggregate Market Value thereof; and lawful money of the United States; provided, however, that the Balance of any Fund or Account shall not include amounts standing to the credit thereof which are being held therein for (A) the payment of past due and unpaid interest on Obligations and (B) the payment of interest on Obligations that are deemed no longer Outstanding as a result of the defeasance of the Indenture; provided that as used with respect to certain provisions regarding the Insurance Policy, the term "Balance" shall only include assets invested in Investment Securities maturing on or before the applicable Note Payment Date and Balances shall not include any Pledged Student Loans pledged under any Collateral Assignment unless and until the Insurer shall have approved the terms of such Collateral Assignment and shall have received an opinion of Counsel, in form and content acceptable to the Insurer, with respect to such Collateral Assignment and with respect to the priority of the security interest created thereby.

"Beneficial Owner" shall mean the person for whose ultimate benefit DTC acquires an interest in the Notes as described under the caption "THE NOTES -- Book-entry System".

"Beneficiaries" shall mean the Holders of the Obligations, any Swap Counterparty and the Insurer.

"Bid" shall have the meaning set forth in APPENDIX E, "AUCTION PROCEDURES".

"Bidder" shall have the meaning set forth in APPENDIX E, "AUCTION PROCEDURES".

"Board Resolution" shall mean a copy of a resolution certified by the secretary, an assistant secretary or an Authorized Officer of the Foundation to have been duly adopted by the Board of Directors of the Foundation and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Bond Equivalent Yield" shall mean, in respect of any security the rate for which is quoted in *The Wall Street Journal* on a bank discount basis, the "bond equivalent yield" (expressed as a percentage) for such security which appears on Telerate's United States Treasury and Money Market Composite Page 0223, rounded up to the nearest one-hundredth of one percent.

"Book-entry Form" or "Book-entry System" shall mean a form or system under which (i) the beneficial right to principal and interest may be transferred only through a book entry, (ii) physical securities in registered form are issued only to a Depository or its nominee as registered owner, with the Securities "immobilized" to the custody of the Depository and (iii) the book entry is the record that identifies the owners of beneficial interests in that principal and interest.

"Broker-Dealer" shall mean Smith Barney Inc. or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been approved as such by the Foundation pursuant to the Indenture, and (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

"Broker-Dealer Agreement" shall mean each agreement between the Auction Agent and a Broker-Dealer approved by the Foundation and the Insurer (which approval shall not be unreasonably withheld) pursuant to which the Broker-Dealer agrees to participate in Auctions as set forth in the Auction Procedures, as from time to time amended or supplemented. Each Broker-Dealer Agreement shall be substantially in the form of the Broker-Dealer Agreement, dated as of October 1, 1996, between Bankers Trust Company, as Auction Agent, and Smith Barney Inc., as Broker-Dealer.

"Broker-Dealer Fee" shall mean the Broker-Dealer Fee as defined in the Auction Agent Agreement.

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

"Budgeted Administrative Expenses" shall mean, with respect to each Fiscal Year, an amount of Administrative Expenses budgeted by the Foundation for such Fiscal Year, as evidenced by a Board Resolution; provided that in establishing such budget the Board shall take into consideration the limitations on such Expenses set forth in the Indenture; and provided further that the Budgeted Administrative Expenses for future months and Fiscal Years shall, until the Trustee receives a new Board Resolution budgeting different amounts, be assumed to be in an amount equal to the Administrative Expenses budgeted in the most recent applicable Board Resolution received by the Trustee.

"Business Day" shall mean any day other than (a) a Saturday, a Sunday, or a legal holiday or the equivalent (other than a moratorium) for banking institutions generally in either the City of New York, New York, or the city in which the principal corporate trust office of the Trustee is located and (b) any day The New York Stock Exchange is closed.

"Carry-over Amount" shall mean the excess, if any, of (a) the amount of interest on any Notes that would have accrued with respect to the related Auction Period at the applicable Auction Rate over (b) the amount of interest on such Note actually accrued with respect to such Auction Period based on the applicable Net Loan Rate, together with the unreduced portion of any such excess from prior Auction Periods; provided that any reference to "principal" or "interest" in this Offering Memorandum and the Notes shall not include within the meanings of such words any Carry-over Amount or any interest accrued on any Carry-over Amount.

"Carry-over Rate" shall mean the per annum rate of interest at which interest accrues on any Carry-over Amount, which rate is One-Month LIBOR.

"Cash Flow Certificate" shall mean a Foundation Certificate, a copy of which shall have been provided to the Insurer, (i) setting forth for the then current and each future year during which Obligations will be Outstanding:

(A) the aggregate of the Balances reasonably expected to be available at the beginning of such year and the amount of revenues reasonably expected to be received in each such year that are reasonably expected to be available to pay Debt Service, Note Fees and Administrative Expenses; and

(B) the aggregate Debt Service for each Note Year on all Notes expected to be Outstanding, all reasonably expected Note Fees and all reasonably expected Administrative Expenses;

and (ii) demonstrating that in each such year the aggregate of the amounts set forth in clause (i)(A) above exceeds the aggregate of the amounts set forth in clause (i)(B) above.

Each Cash Flow Certificate provided as a condition to any particular action shall be based upon an assumption that such action has been taken and upon the Foundation's expectations as to all effects of such action and otherwise upon such assumptions as the Foundation shall determine to be reasonable and as the Insurer shall approve, with such approval not to be unreasonably withheld other than on the basis that certain assumptions are required by a Rating Agency.

"Cash Flows" shall mean cash flow schedules prepared by the Foundation (or a designee of the Foundation approved by the Insurer) including a listing of all assumptions used in the preparation of such cash flow schedules. Such assumptions shall be reasonable in the judgment of the Foundation and approved by the Insurer (which approval shall not be unreasonably withheld).

"Certificate", "Direction", "Instruction" or "Order", as the case may be, shall mean, respectively, a certificate, direction, instruction or order which shall, unless otherwise specifically provided, be in writing and which is signed in the name of the Foundation by an Authorized Officer.

"Certificate of Insurance" shall mean a certificate of federal loan insurance issued with respect to a Student Loan by the Secretary of Education pursuant to the provisions of the Act (including but not limited to a certificate of comprehensive insurance with respect to Consolidation Loans).

"Closing Date" shall mean, with respect to any portion of the Notes, the date of initial issuance and delivery of such portion of the Notes.

"Collateral Assignment" shall mean a Collateral Assignment executed by MHEAC in favor of the Trustee and any other collateral assignment, in form and content approved by the Insurer, executed by a party other than the Foundation conveying cash, Student Loans or other assets to the Trustee as additional security for the obligations secured by the Indenture.

"Consolidation Loan" shall mean a Student Loan authorized under Section 428C of the Act.

"Contract of Insurance" shall mean the Contract of Federal Loan Insurance, effective August 12, 1982, entered into between the Trustee and the Secretary of Education, and any amendment thereto.

"Conversion" shall mean the conversion of the Interest Rate on the Notes to bear interest at other than the Auction Rates pursuant to the Indenture.

"Conversion Date" shall mean the date on which Conversion shall occur pursuant to the Indenture.

"Costs of Issuance" shall mean all items of expense payable by or reimbursable directly or indirectly to the Foundation and related to the authorization, sale and issuance of the Obligations, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of any fiduciary and other private parties performing services for the Foundation or under the Indenture in connection with the issuance or payment of Obligations, initial fees and expenses of the Insurer, legal fees and charges, fees and disbursements of underwriters, consultants and professionals, costs of credit ratings, fees and charges for preparation, execution, transportation and safekeeping of Obligations and any other cost, charge or fee in connection with the issuance of Obligations.

"Counterparty Swap Payment" shall mean a payment due to the Foundation from a Swap Counterparty pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination date, as defined in the applicable Swap Agreement).

"Current Cash Flow Projection" shall have the meaning set forth under the caption "SUMMARY OF CURRENT CASH FLOW PROJECTION".

"Date of Issuance" shall mean October 31, 1996.

The term "day" shall mean any calendar day, whether or not a Business Day.

"Debt Service" shall mean, as of any particular date and with respect to any particular period, the aggregate of the moneys to be paid on such date or during such period for the payment of the principal of and interest on the Obligations.

"Delivery Certificate" shall mean a Certificate specifying certain terms of Notes being delivered under the Indenture, in substantially the form set forth as Exhibit "C" to the Indenture.

"Depository" shall mean any securities depository that is a clearing agency under federal law operating and maintaining a Book-entry System to record beneficial ownership of the right to principal and interest, and to effect transfers of securities, in Book-entry Form, and includes and means initially DTC.

"DTC" shall mean The Depository Trust Company (a limited purpose trust company), New York, New York.

"Eligible Borrower" shall mean a borrower who is eligible under the Higher Education Act and applicable laws of the State to be the obligor of a loan for financing a program of post-secondary education.

"Eligible Institution" shall mean an "eligible institution" as defined under the Higher Education Act.

"Eligible Lender" shall mean an eligible lender, as defined in the Higher Education Act, which has received an eligible lender designation from the Secretary of Education with respect to Insured Loans, or from a Guarantor with respect to Guaranteed Loans.

"Eligible Loan" shall mean a fully disbursed Student Loan which: (a) is either Insured or Guaranteed and (unless the Foundation shall have provided to the Trustee written evidence that the Insurer has approved treating an Insured or Guaranteed Loan which is not an "eligible loan" for purposes of receiving Special Allowance Payments as an Eligible Loan) is an "eligible loan" for purposes of receiving Special Allowance Payments; (b) is either (i) a PLUS Loan, a Consolidation Loan or an SLS Loan, (ii) (A) an "eligible loan" under the Higher Education Act for purposes of receiving Interest Benefit Payments, or (B) if Interest Benefit Payments are abolished by any change in any law or regulations or the official interpretation thereof, loans which provide for payment of interest by the borrower thereunder and such payment of interest is either Insured or Guaranteed and not subject to any deferment or (C) an unsubsidized Guaranteed Loan made under Section 428H of the Act (with

respect to which Interest Benefit Payments will not be made) or (iii) a type of loan authorized under law enacted subsequent to the date of the Indenture, if the Foundation shall have provided to the Trustee written evidence that the Insurer has approved treating such a type of loan as an Eligible Loan; (c) except to the extent that the Foundation shall have provided the Trustee written evidence that the Insurer has approved treating Student Loans bearing interest at lower rates as Eligible Loans, bears interest at a rate not less than .15% per annum below the maximum applicable interest rate permitted under the Act with respect to the Student Loan in question at the time such Student Loan was made; (d) other than in the case of a Consolidation Loan originated by the Foundation or the Trustee acting on behalf of the Foundation or as shall be otherwise approved by the Insurer, was purchased by the Foundation, directly or indirectly, from a Lender pursuant to a Purchase Agreement; (e) does not exceed the maximum outstanding loan limitations described in the Act; and (f) has not been tendered at any time for payment to and rejected by either the Secretary or any guarantee agency, including any Guarantor, for payment, unless all defects which caused such rejection have been cured.

"Eligible Loan Acquisition Certificate" shall mean a certificate in substantially one of the forms set forth in the Indenture.

"Event of Default" shall mean an Event of Default under the Indenture and described herein under the caption - "THE INDENTURE - Events of Default and Remedies -- Events of Default".

"Existing Holder" shall mean (i) with respect to and for the purpose of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day preceding such Auction and (ii) with respect to and for the purpose of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Notes.

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

"Failed Conversion" shall mean that the purchase price for all of the Notes shall not have been deposited with the Trustee in connection with a proposed Conversion by the times specified in the Indenture.

"Federal Family Education Loan Program" shall mean the program described in APPENDIX C, "DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM".

"Federal Reimbursement Contracts" shall mean: (a) with respect to USAF, (i) the Application by a State or Private Nonprofit Institution or Organization for Coverage of Its Student Loan Insurance Program Under the Interest Benefit Provisions of Section 428(a) of the Higher Education Act of 1965 During the Interim Period Ending June 30, 1967, dated January 25, 1966 by USAF and approved March 31, 1966 by the U.S. Commissioner of Education, (ii) the Terms and Conditions Covering Advances Made Under Section 422 of the Higher Education Act of 1965 Title IV-B, dated August 25, 1966, between USAF and the U.S. Commissioner of Education, (iii) the Agreement Pursuant to Section 428(b) of the Higher Education Act of 1965, as amended, with a State or Private Non-Profit Institution or Organization for Coverage of its Student Loan Insurance Program under the Interest Benefits Provisions of Section 428(a) of the Act, dated March 4, 1977 by USAF and March 15, 1977 by the United States Commissioner of Education, (iv) the Supplemental Guaranty Agreement for Federal Re-Insurance of Loans under the Higher Education Act of 1965, As Amended, dated June 17, 1977, between USAF and the United States Commissioner of Education, as amended by the Amendment to the Supplemental Guaranty Agreement for Federal Reinsurance of Loans Pursuant to Section 428A of the Higher Education Act of 1965, As Amended, Relating to the Assignment of Loans, dated January 28, 1982 by USAF and February 11, 1982 by the Secretary, (v) the Agreement for Federal Reinsurance of Loans Pursuant to 428(c) of the Higher Education Act of 1965, As Amended, dated June 17, 1977, between USAF and the United States Commissioner of Education, as amended by the Amendment to the Agreement for Federal Reinsurance of Loans Pursuant to 428(c) of the Higher Education Act of 1965, As Amended, Relating to the Assignment of Loans, dated January 28, 1982 by USAF and February 11, 1982 by the Secretary, and (b) at any time that Pledged Eligible Loans are Guaranteed by any Other Qualified Guarantor, such similar agreement or agreements as shall have been entered into between such Other Qualified Guarantor and the Secretary and as shall have been approved in writing by the Insurer.

"Financed" shall mean with respect to any Notes, in the case of Eligible Loans or Student Loans, (i) Student Loans financed with the proceeds of Notes from moneys in the Acquisition Account or (ii) upon the exchange of Student Loans, the Student Loans received upon such exchange; and "Financing" in the case of Student Loans shall mean the making or acquisition, directly or indirectly, or refinancing through the Trustee, of Student Loans with such moneys or upon any such exchange or transfer.

"Financed Eligible Loans" or "Financed Student Loans" shall mean Eligible Loans or Student Loans, as applicable, which are Financed and which are evidenced solely by promissory notes and applications related thereto.

"Fiscal Year" shall mean a period of 12 consecutive calendar months commencing on January 1 of any year and ending on December 31 of such year, or such other period of 12 consecutive calendar months as may be designated as the Fiscal Year for the Foundation.

"FISL Program" shall mean the federal loan insurance program created under the Higher Education Act whereby the Secretary of Education directly insures the repayment of at least eighty percent (80%) of the principal of (and in certain cases up to one hundred percent (100%) of the principal of and accrued interest on) Student Loans under the Higher Education Act.

"Fitch" shall mean Fitch IBCA, Inc., a corporation organized and existing under the laws of the State of New York, its successors and their assigns, and if Fitch shall be dissolved or liquidated or shall no longer perform the function of a securities rating agency, "Fitch" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, at the written direction of the Foundation with the prior approval of the Insurer (which approval shall not be unreasonably withheld).

"Foundation" shall mean Education Services Foundation, a private nonprofit corporation duly organized and existing under the nonprofit corporation laws of the State, and any successor or successors thereto.

"Foundation Request", "Foundation Order", "Foundation Consent" or "Foundation Certificate" shall mean, respectively, a written request, order, consent or certificate signed in the name of the Foundation by an Authorized Officer and delivered to the Trustee.

"Fund" shall mean the Trust Estate Fund established by the Indenture.

"General Rating Category" shall mean one of the general rating categories of any Rating Agency, without regard to any refinement or graduation of such rating category by a numerical modifier, a plus or minus or otherwise.

"Government Obligations" shall mean noncallable bonds, notes or other direct evidences of indebtedness of the United States of America or any other noncallable and nonprepayable obligation unconditionally guaranteed as to the full and timely payment of principal and interest by the United States of America; but, specifically excluding money market mutual funds and unit investment trusts.

"Guarantee" or "Guaranteed" shall mean, with respect to a Student Loan, the guarantee by a Guarantor of at least ninety-eight percent (98%) (or such lower percentage as the Insurer shall approve) of the principal of and accrued interest on such Student Loan.

"Guarantee Agreement" shall mean: with respect to USAF, the Agreement to Guarantee Loans between USAF and the Trustee, effective October 17, 1994, and the Consolidation Loan Program Agreement to Guarantee Consolidation Loans between USAF and the Trustee, effective November 18, 1996, including any supplements or amendments thereto entered into in accordance with the provisions thereof and hereof; and at any time that Pledged Eligible Loans are Guaranteed by any Other Qualified Guarantor, such similar agreements as shall be entered into between the Trustee and such Other Qualified Guarantor and as shall be approved by the Insurer.

"Guarantee Program" shall mean USAF's student loan insurance program pursuant to which USAF guarantees Student Loans and, at any time that Pledged Student Loans are Guaranteed by any Other Qualified Guarantor, such similar program of such Other Qualified Guarantor.

"Guaranteed Loan" shall mean a Student Loan which is Guaranteed.

"Guarantors" shall mean USAF and all Other Qualified Guarantors.

"Higher Education Act" shall mean title IV, Part B and Part F, of the Higher Education Act of 1965, as amended or supplemented from time to time, and all regulations, directives, bulletins and guidelines promulgated thereunder.

"Hold Order" shall have the meaning set forth in APPENDIX E, "AUCTION PROCEDURES".

"Holder", "Noteholder" or "Holder of an Obligation" shall mean any person who shall be the registered owner of any Obligation or the duly authorized attorney-in-fact or representative of such person, which so long as such Obligation is in Book-entry Form shall be the Depository, and shall mean initially with respect to such Obligation, the Original Purchaser thereof to the extent of its beneficial ownership.

"Indenture" shall mean the Trust Indenture, dated as of October 1, 1996, between the Foundation and the Trustee, as amended or supplemented from time to time by Supplemental Indentures, including, without limitation, the First Supplemental Trust Indenture and the Second Supplemental Trust Indenture, each to be dated as of July 31, 1998.

"Independent" when used with respect to any specified Person shall mean such a Person who: (1) is in fact independent; (2) does not have any direct financial interest or any material indirect financial interest in the Foundation, other than the payment to be received under a contract for services to be performed by such Person; and (3) is not connected with the Foundation as an official, officer, employee, promoter, underwriter, trustee, partner, affiliate, subsidiary, director or Person performing similar functions.

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

"Initial Auction Agent Agreement" shall mean the Auction Agent Agreement, dated as of October 1, 1996, by and between the Foundation and the Initial Auction Agent, including any amendment thereof or supplement thereto approved by the Insurer, which approval shall not be unreasonably withheld.

"Initial Broker-Dealer" shall mean Smith Barney Inc., its successors and assigns.

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

"Initial Period" shall mean, as to the \$30,000,000 of Notes issued on October 31, 1996, the period commencing on the Date of Issuance and continuing through the day preceding the immediately succeeding Auction Rate Adjustment Date for such Notes.

"Insurance" or "Insured" or "Insuring" shall mean, with respect to a Student Loan, the insuring by the Secretary of Education (as evidenced by a Certificate of Insurance or other document or certification issued under the provisions of the Act) under the Act of one hundred percent (100%) of the principal of and accrued interest on such Student Loan; provided, however, that a Student Loan for which an application for insurance commitment was received by the Secretary of Education prior to March 1, 1973, shall be deemed Insured if insured by the Secretary of Education to the extent of one hundred percent (100%) of the principal amount of such Student Loan and if at the same time the Foundation acquires such a pre-March 1, 1973, Student Loan it also acquires an Insured Loan executed by the same borrower after March 1, 1973.

"Insurance Policy" shall mean the financial guaranty insurance policy issued by the Insurer insuring the timely payment of principal of and interest on the Notes and, if Obligations of a Series other than the Notes shall be issued, any additional financial guaranty or comparable insurance policy issued by the Insurer insuring the timely payment of principal of and interest on the Obligations of such Series.

"Insured Loan" shall mean a Student Loan which is Insured.

"Insurer" shall mean MBIA Insurance Corporation, a New York stock insurance corporation.

"Insurer Default" shall mean a failure by the Insurer to make any payment when required under the Insurance Policy.

"Interest Benefit Payments" shall mean interest payments on Student Loans received pursuant to an Interest Benefits Agreement.

"Interest Benefits Agreement" shall mean: with respect to USAF, the agreement, pursuant to Section 428(b) of the Higher Education Act, between USAF and the Secretary whereby the Secretary agrees to pay to holders of Student Loans Guaranteed by USAF the portion of the interest charges on such loans which the obligors are entitled to have paid on their behalf pursuant to Sections 428(a)(1) and 428(a)(2) of the Higher Education Act; and at any time that Pledged Student Loans are Guaranteed by any Other Qualified Guarantor, such similar agreement or agreements as shall have been entered into with the Secretary pursuant to Section 428(b) of the Higher Education Act.

"Interest Payment Date" shall mean, when used with respect to any Obligations bearing interest at an Auction Rate for an Auction Period of less than 180 days, the first day of the next Auction Period to which interest on Obligations has accrued; any Conversion Date and otherwise each April 1 and October 1.

"Interest Period" shall mean the Initial Period and thereafter each period commencing on an Auction Rate Adjustment Date and ending on the day before (a) the next Auction Rate Adjustment Date, (b) the Conversion Date or (c) the Maturity Date, as applicable.

"Interest Rate" shall mean (i) with respect to Auction Rate Securities, the rate of interest per annum borne by such Auction Rate Securities for each Auction Period and determined in accordance with the Auction Procedures, subject to the applicable Interest Rate Limitation; provided, however, that in the event of a Payment Default, the Interest Rate shall equal the Non-Payment Rate and (ii) for purposes of any Notes that are not Auction Rate Securities, the rate or rates of interest set forth in such Notes.

"Interest Rate Limitation" shall mean, with respect to any Notes, 16% as set forth in the definition of Maximum Rate, (except upon and during the continuance of a Payment Default).

"Internal Revenue Code" shall mean the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

"Investment Securities" shall mean any of the following unless the Foundation has determined that the same are not at the time legal investments of the Foundation's moneys:

(a) Direct obligations of the United States of America (including obligations issued or held in book-entry form on the books of the Department of the Treasury, and CATS and TIGRS) or obligations the principal of and interest on which are unconditionally guaranteed by the United States of America.

(b) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following federal agencies and provided such obligations are backed by the full faith and credit of

the United States of America (stripped securities are only permitted if they have been stripped by the agency itself):

- i. U. S. Export-Import Bank (Eximbank)
Direct obligations or fully guaranteed certificates of beneficial ownership
- ii. Farmers Home Administration (FmHA)
Certificates of beneficial ownership
- iii. Federal Financing Bank
- iv. Federal Housing Administration Debentures (FHA)
- v. General Services Administration
Participation certificates
- vi. Government National Mortgage Association (GNMA or "Ginnie Mae")
GNMA - guaranteed mortgage-backed bonds
GNMA - guaranteed pass-through obligations
- vii. U. S. Maritime Administration
Guaranteed Title XI financing
- viii. U. S. Department of Housing and Urban Development (HUD)
Project Notes
Local Authority Bonds
New Communities Debentures - U. S. government guaranteed debentures
U. S. Public Housing Notes and Bonds - U. S. government guaranteed public housing notes and bonds

(c) Bonds, debentures, notes or other evidence of indebtedness issued or guaranteed by any of the following non-full faith credit U. S. government agencies (stripped securities are only permitted if they have been stripped by the agency itself):

- i. Federal Home Loan Bank System
Senior debt obligations
- ii. Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mae")
Participation Certificates
Senior debt obligations
- iii. Federal National Mortgage Association (FNMA or "Fannie Mae")
Mortgage-backed securities and senior debt obligations
- iv. Student Loan Marketing Association (SLMA or "Sallie Mae")
Senior debt obligations
- v. Resolution Funding Corp. (REFCORP) obligations
- vi. Farm Credit System
Consolidated systemwide bonds and notes

(d) Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933, and having a rating by Moody's of

Aaa, Aa1 or Aa2 and if rated by Fitch rated in one of the three highest applicable Specific Rating Categories.

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

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

(g) Investment Agreements, including GIC's, approved by the Insurer.

(h) Commercial paper rated, at the time of purchase, "Prime - 1" by Moody's and in the highest applicable Specific Rating Category by Fitch, if rated by Fitch.

(i) Bonds or notes issued by any state or municipality which are rated by Moody's and Fitch (if rated by Fitch) in one of the two highest rating categories assigned by such agencies.

(j) Federal funds or bankers acceptances with a maximum term of one year of any bank which has an unsecured, uninsured and unguaranteed obligation rating of "Prime - 1" or "A3" or better by Moody's and in its highest applicable short-term rating category or one of its three highest long-term rating categories by Fitch, if rated by Fitch.

(k) Repurchase agreements providing for the transfer of securities from a dealer bank or securities firm (seller/borrower) to a municipal entity (buyer/lender), and the transfer of cash from a municipal entity to the dealer bank or securities firm with an agreement that the dealer bank or securities firm will repay the cash plus a yield to the municipal entity in exchange for the securities at a specified date.

Repurchase Agreements must satisfy the following criteria or be specifically approved by the Insurer.

(i) Repurchase Agreement must be between the Trustee and a dealer bank or securities firm

(a) Primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Moody's and in one of its three highest General Rating Categories by Fitch, if rated by Fitch, or

(b) Banks rated "A" or above by Moody's and in one of its three highest General Rating Categories by Fitch, if rated by Fitch.

(ii) The written repurchase agreement must include the following:

(a) Securities which are acceptable for transfer are:

(1) Direct U. S. governments, or

(2) Federal agencies backed by the full faith and credit of the U. S. government (and FNMA & FHLMC)

(b) The term of the repurchase agreement may not exceed 30 days.

(iii) The collateral must be delivered to the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee (if the Trustee is supplying the collateral) before/simultaneous with payment (perfection by possession of certificated securities).

(iv) Valuation of Collateral

(a) The securities must be valued weekly, marked-to-market at current market price plus accrued interest; and

(b) The value of the collateral must be equal to not less than 104% (105% if the securities used as collateral are FNMA or FHLMC) of the amount of cash transferred by the Trustee to the dealer bank or security firm under the repurchase agreement plus accrued interest. If the value of securities held as collateral is less than 104% (or 105%, if applicable) of the value of the cash transferred by the Trustee, additional cash and/or acceptable securities must be transferred.

(l) any other investments, if the Trustee shall have received written evidence that the Insurer has approved treating such investment as an Investment Security.

"Lender" shall mean: (a) any "eligible lender" as defined in the Higher Education Act, permitted to participate as a seller of Student Loans to the Foundation and which has received an eligible lender designation from the Secretary of Education with respect to Insured Loans, or from a Guarantor with respect to Guaranteed Loans; (b) with respect to Rehabilitated Loans, a Guarantor; or (c) any other party authorized to hold or own Student Loans under the Higher Education Act.

"Market Agent" shall mean the Initial Market Agent unless and until a Substitute Market Agent Agreement is entered into (with the prior written consent of the Insurer, which consent shall not be unreasonably withheld), after which Market Agent shall mean the Substitute Market Agent.

"Market Agent Agreement" shall mean the Market Agent Agreement dated as of October 1, 1996, between the Trustee and the Initial Market Agent, as approved by the Foundation, until and unless a Substitute Market Agent Agreement is effective, after which Market Agent Agreement shall mean such Substitute Market Agent Agreement, in each case as from time to time amended or supplemented.

"Maturity Date" shall mean, with respect to any Obligation, the date on which the principal of such Obligation becomes due and payable as provided in such Obligation.

"Maximum Auction Rate" or "Maximum Rate" shall mean, as of any date of determination, the interest rate per annum equal to the least of (a) either (i) the Applicable LIBOR-Based Rate plus 1.50% (if the ratings assigned by each Rating Agency to the Notes are in the second highest General Rating Category or better) or (ii) the Applicable LIBOR-Based Rate plus 2.50% (if any one of the ratings assigned by each Rating Agency to the Obligations is less than the second highest General Rating Category), (b) 16% and (c) the highest rate the Issuer may legally pay, from time to time, as interest on the Obligations. The ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given written notice pursuant to the Auction Agent Agreement.

"MHEAC" shall mean Mississippi Higher Education Assistance Corporation, a Mississippi non-profit corporation.

"Moody's" shall mean Moody's Investors Service, Inc., a corporation organized and existing under the laws of the State of Delaware, its successors and their assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer

to any other nationally recognized securities rating agency designated by the Trustee and approved by the Insurer (which approval shall not be unreasonably withheld).

"Net Loan Rate" means, with respect to the Notes, the rate of interest per annum (rounded to the next highest one-hundredth of one percent) equal to the applicable United States Treasury Security Rate plus 1.50%. For Auction Periods of 180 days or less, the applicable United States Treasury Security Rate is for 91-day United States Treasury securities, and for Auction Periods of more than 180 days, the applicable United States Treasury Security Rate is for one-year United States Treasury securities.

"Non-Payment Rate" shall mean, as of any date of determination, the interest rate per annum equal to One-Month LIBOR plus 1.50%.

"Non-Priority Note Fees" shall mean Note Fees payable other than to the Trustee and the Insurer.

"Note Counsel" shall mean a firm of attorneys nationally recognized as experienced in matters pertaining to obligations such as the Notes and selected by the Foundation.

"Note Fees" shall mean the fees, costs and expenses (including reasonable attorneys' fees and expenses) of the Trustee, Note Counsel, the Auction Agent, the Market Agent, any Broker-Dealer, the Insurer, rating agencies and independent accountants incurred by the Foundation in carrying out and administering its powers, duties and functions under its charter of incorporation, its bylaws, the Contract of Insurance, any Certificate of Insurance, any Guarantee Agreement, any Auction Agent Agreement, the Market Agent Agreement, any Broker-Dealer Agreement, the Participation Agreement, the Purchase Agreements, the Indenture, the Insurance Policy, the Program, the Higher Education Act or any requirement of the laws of the United States or the State with respect to the Program or any requirements of any regulations promulgated pursuant to such laws, as such powers, duties and functions relate to the Obligations.

"Note Payment Date" shall mean any day on which principal of or interest on the Obligations is due and payable in accordance with the terms of the Indenture.

"Note Register" shall mean the register or registers containing the names of the Holders of Obligations maintained pursuant to the Indenture.

"Note Year" shall mean each twelve-month period ending on December 31.

"Notes" shall mean the Series 1996 Notes issued pursuant to the Indenture.

"Obligations" shall mean the Notes and all other Obligations issued pursuant to the Indenture or a Supplemental Indenture.

"One-Month LIBOR", "Three-Month LIBOR", "Six-Month LIBOR" or "One-Year LIBOR," shall mean the rate of interest per annum equal to the rate per annum at which United States dollar deposits having a maturity of one month, three months, six months or one year, respectively, are offered to prime banks in the London interbank market which appear on the Reuters Screen LIBOR Page as of approximately 11:00 a.m., London time, on the applicable Auction Rate Determination Date. If at least two such quotations appear, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two such quotes appear, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, with respect to such Auction Period will be determined at approximately 11:00 a.m., London time, on such Auction Rate Determination Date on the basis of the rate at which deposits in United States dollars having a maturity of one month, three months, six months or one year, respectively, are offered to prime banks in the London interbank market by four major banks in the London interbank market selected by (a) the Auction Agent or (b) the Trustee, as applicable, and in a principal amount of not less than U. S. \$1,000,000 and that is representative for a single transaction in such market at such time. The Auction Agent or the Trustee, as applicable, will request the principal

London office of each of such banks to provide a quotation of its rate. If at least two quotations are provided, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of such offered rates. If fewer than two quotations are provided, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, with respect to such Auction Period will be the arithmetic mean (rounded upwards, if necessary, to the nearest one-hundredth of one percent) of the rates quoted at approximately 11:00 a.m., New York City time on such Auction Rate Determination Date by three major banks in New York, New York selected by (i) the Auction Agent or (ii) the Trustee, as applicable, for loans in United States dollars to leading European banks having a maturity of one month, six months or one year, respectively, and in a principal amount equal to an amount of not less than U. S. \$1,000,000 and that is representative for a single transaction in such market at such time; provided, however, that if the banks selected as aforesaid are not quoting as mentioned in this sentence, One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, in effect for the applicable Auction Period will be One-Month LIBOR, Three-Month LIBOR, Six-Month LIBOR or One-Year LIBOR, respectively, in effect for the immediately preceding Auction Period.

"Order" shall have the meaning set forth in APPENDIX E, "AUCTION PROCEDURES".

"Original Purchaser(s)" shall mean, collectively, as to the Notes or other Obligations, the person or persons identified as the purchaser or purchasers in the Purchase Contract or Purchase Contracts.

"Other Qualified Guarantor" shall mean any agency or entity (other than USAF) which guarantees Student Loans; provided that the Foundation shall have provided to the Trustee written evidence that the Insurer has approved treating such agency or entity as an Other Qualified Guarantor (which approval shall not be unreasonably withheld).

"Outstanding", when used, with respect to any Obligations, shall mean, except as otherwise expressly provided in the Indenture, all Obligations issued under the Indenture, except:

- (1) Obligations theretofore canceled by the Trustee or delivered to the Trustee for cancellation
- (2) Obligations for the payment of which money or Government Obligations (as provided in the Indenture), in an amount sufficient to pay, on the date when such Obligations are to be paid or redeemed, the principal or redemption price thereof, and the interest accruing to such date thereon, have been deposited with the Trustee in trust for the Holders;
- (3) Obligations in exchange for or in lieu of which other Obligations have been issued.

"Parity Requirement" shall mean that the ratio of (1) the Balances credited to the Trust Estate Fund to (2) the aggregate principal amount of all Outstanding Obligations (net of accrued amounts owed by or to the Foundation pursuant to any Swap Agreements) plus accrued interest thereon is at least equal to (3) (i) at any time that not less than seventy-five percent (75%) of the Student Loans included in the Trust Estate (computed on the same basis that Aggregate Market Value of Student Loans is computed) are serviced by UNIPAC, 103%; and (ii) otherwise 105% or such lower percentage as shall be specified by the Insurer in a written notice to the Trustee.

"Participant" shall mean a DTC Participant.

"Payment Default" shall mean an Insurer Default with respect to its obligation to make payment to the Holders of the Notes.

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

"Pledged" shall mean, with respect to Student Loans or Eligible Loans, as the case may be, Student Loans or Eligible Loans, legal title to which is held by the Trustee and the beneficial owner of which is the Foundation (or any other party other than the Foundation) and which was acquired by the Foundation pursuant to the Indenture or pledged as part of the Trust Estate pursuant to a Collateral Assignment or the Indenture, but does not include Student Loans released from the lien of the Indenture in accordance with the terms thereof.

"PLUS Loan" shall mean a Student Loan authorized under Section 428B of the Higher Education Act.

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

"Principal Office" shall mean (i) when used with respect to any party whose address is given in the Indenture, the office of such party at the address specified in the Indenture, or such other office designated in writing to the Trustee and the Foundation and (ii) when used with respect to any other Person, the office designated in writing to the Trustee and the Foundation.

"Principal Payment Date" shall mean the Stated Maturity of the principal of any obligation.

"Program" shall mean the Foundation's program for the acquisition of Student Loans to increase the supply of moneys available for new Student Loans, thereby assisting students in obtaining a post-secondary school education.

"Proprietary-Vocational School Student Loan" shall mean a Student Loan made to finance costs of a student attending a "proprietary institution of higher education" as such term is defined in 20 USCA 1088(b) and all regulations promulgated thereunder.

"Purchase Agreement" shall mean a Student Loan Purchase Agreement, between the Foundation and a seller of Student Loans, for purposes of the Program (in whole or in part), as originally executed and as from time to time amended or supplemented in accordance with the terms thereof and with the Indenture.

"Purchase Contract" shall mean, any Note Purchase Agreement or Note Purchase Contract between the Foundation and the Original Purchasers or Original Purchaser for the original purchase of any Notes.

"Rating Agency" shall mean any rating agency that shall have an outstanding rating on any of the Obligations pursuant to request by the Foundation.

"Rating Category" means one of the general rating categories of a Rating Agency, without regard to any refinement or graduation of such rating category by a numerical modifier or otherwise.

"Record Date" shall mean with respect to any payment the Business Day immediately preceding the date on which such payment is made.

"Redemption Date" when used with respect to any Obligation to be redeemed, shall mean the date fixed for such redemption by or pursuant to the Indenture.

"Reserve Requirement" shall mean an amount equal to four percent (4%) of the Outstanding principal amount of the Obligations.

"Reuters Screen LIBOR Page" shall mean the display designated as page "LIBOR" on the Reuters Monitor Money Rates Service (or such other page as may replace the LIBOR page for the purposes of displaying London interbank offered rates of major banks).

"Revenue Account" shall mean the Revenue Account created and established by the Indenture.

"Secretary of Education" or "Secretary" shall mean the Commissioner of Education, Department of Health, Education and Welfare of the United States, and the Secretary of the United States Department of Education (who succeeded to the functions of the Commissioner of Education pursuant to the Department of Education Organization Act), or any other officer, board, body, commission or agency succeeding to the functions thereof under the Higher Education Act.

"Sell Order" shall have the meaning set forth in APPENDIX E, "AUCTION PROCEDURES".

"Series" or "Series of Notes or Obligations" refers to the Notes and any Obligations of a series issued and secured pursuant to the Indenture.

"Series 1996 Notes" shall mean the Foundation's Student Loan Asset-Backed Notes, Series 1996.

"SLS Loan" shall mean a Student Loan authorized under Section 428A of the Higher Education Act.

"Servicer" shall mean SunTech, Inc., UNIPAC, or any other organization approved by the Insurer which in the future shall enter into a Servicing Agreement.

"Servicing Agreements" shall mean (i) the Servicing Agreement between the Foundation and UNIPAC, dated as of August 1, 1996, and any supplements or amendments thereto, (ii) the Servicing Agreement between the Foundation and SunTech, Inc., and any supplements or amendments thereto, and (iii) any other similar servicing agreement, and any supplements or amendments thereto, approved by the Insurer pursuant to which such a Servicer will service Pledged Student Loans.

"Servicing Fees" shall mean any fees payable to a Servicer for servicing Pledged Student Loans.

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

"Specific Rating Category" shall mean a specific rating category of a Rating Agency, including any refinement or graduation of such rating category by a numerical modifier, a plus or minus or otherwise. For so long as any of the Notes are rated by Moody's: (a) references to the highest applicable Specific Rating Category shall be, with respect to obligations or investments having a term of less than one year, to a rating of "P1" (or such rating as Moody's shall advise the Trustee is comparable to "P1" under any revised rating schedule), and with respect to obligations or investments having a term of one year or longer, to a rating of "Aaa" (or such rating as Moody's shall advise the Trustee is comparable to "Aaa" under any revised rating schedule); and (b) references to the third highest applicable Specific Rating Category shall be, with respect to obligations or investments having a term of one year or longer, to a rating of "Aa2" (or such rating as Moody's shall advise the Trustee is comparable to "Aa2" under any revised rating schedule).

"State" shall mean the State of Mississippi.

"Stated Maturity" when used with respect to any Obligation or any installment of interest thereon, shall mean the date specified in such Obligation on which principal of such Obligation or such installment of interest is due and payable.

"Student Loan" shall mean a loan to an Eligible Borrower for post-secondary education.

"Submission Deadline", with respect to the Notes while they are Outstanding as Auction Rate Securities, shall mean 12:30 p.m., eastern time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time.

"Submitted Bid" shall have the meaning as described in APPENDIX E, "AUCTION PROCEDURES".

"Submitted Hold Order" shall have the meaning as described in APPENDIX E, "AUCTION PROCEDURES".

"Submitted Order" shall have the meaning as described in APPENDIX E, "AUCTION PROCEDURES".

"Submitted Sell Order" shall have the meaning as described in APPENDIX E, "AUCTION PROCEDURES".

"Substitute Auction Agent" shall mean the Person with whom the Foundation enters into a Substitute Auction Agent Agreement.

"Substitute Auction Agent Agreement" shall mean an auction agent agreement containing terms substantially similar to the terms of the Initial Auction Agent Agreement, whereby a Person having the qualifications required by the Indenture agrees with the Foundation to perform the duties of the Auction Agent under the Indenture.

"Substitute Market Agent" shall mean the Person with whom the Trustee, with the approval of the Foundation, enters into a Substitute Market Agent Agreement.

"Substitute Market Agent Agreement" shall mean a market agent agreement containing terms substantially similar to the terms of the Initial Market Agent Agreement, whereby a Person having the qualifications required by the Indenture agrees with the Trustee to perform the duties of the Market Agent under the Indenture.

"Sufficient Clearing Bids" shall have the meaning as described in APPENDIX E, "AUCTION PROCEDURES".

"Supplemental Indenture" shall mean any supplement or amendment to the Indenture entered into by the Foundation and the Trustee pursuant to and in accordance with the Indenture.

"Swap Agreement" shall mean an interest rate swap agreement entered into between the Foundation and/or the Trustee and the Swap Counterparty and approved by the Insurer, as originally executed and as amended or supplemented with the prior written consent of the Insurer, or other interest rate hedge agreement entered into between the Foundation and a Swap Counterparty with the prior written consent of the Insurer, as originally executed and as amended or supplemented with the prior written consent of the Insurer, designated as a Swap Agreement for purposes of the Indenture in a written notice delivered by the Foundation to the Trustee.

"Swap Counterparty" shall mean any Person with whom the Foundation and/or the Trustee shall, from time to time, enter into a Swap Agreement.

"Swap Payment" shall mean a payment due to a Swap Counterparty from the Foundation pursuant to a Swap Agreement, excluding (except to the extent expressly approved by the Insurer) payments in respect of any early termination date, as defined in the applicable Swap Agreement.

"Swap Counterparty Guarantee" shall mean a guarantee in favor of the Foundation given in connection with the execution and delivery of a Swap Agreement.

"Trust Estate" shall mean all properties and interests conveyed to or held by the Trustee pursuant to the Indenture other than properties or interests specifically released from the lien of the Indenture under the terms of the Indenture.

"Trust Estate Fund" shall mean the Trust Estate Fund created pursuant to the Indenture and all accounts and subaccounts therein.

"Trustee" shall mean Trustmark National Bank, a national banking association with its principal office in the City of Jackson, Mississippi, and any successor or successor substituted pursuant to the Indenture.

"United States Treasury Security Rate" means, for purposes of calculating the Net Loan Rate applicable to the Notes, that rate of interest per annum equal to the Bond Equivalent Yield on the applicable United States Treasury securities sold at the last auction thereof that immediately precedes the applicable Auction Rate Determination Date for the Notes.

"UNIPAC" shall mean UNIPAC Service Corporation, a for-profit corporation organized under the laws of the State of Nebraska, and any successor thereto.

"USAF" shall mean United Student Aid Funds, Inc., a Delaware corporation, and any successor thereto.

"Value of Investment Securities" shall mean an amount determined when required under the Indenture and shall constitute (a) as to demand bank deposits, bank time deposits which may be withdrawn without penalty by the depositor upon 14 days' or less notice and obligations which mature not more than six (6) months from the date of purchase thereof, the amount of such deposits or the par amount of such obligations; (b) with respect to obligations (other than investment agreements and repurchase agreements) with a stated maturity of greater than six (6) months after the date of purchase thereof, an amount equal to the fair market value thereof as shall reasonably be determined by the Foundation based upon either: (i) information provided by a pricing service pursuant to a pricing services agreement entered into between the Foundation and a pricing service selected from time to time by the Foundation; or (ii) the lower of the value set forth in current bids from not less than two independent dealers in such obligations who or which are members of NASD, Inc., and one of such bids shall have been in writing; or (iii) with respect to any obligation traded in an established market, the bid price (or the closing price) for such obligation on the last Business Day preceding the valuation for which there is a bid price (or, if applicable, a closing price), determined by reference to any appropriate publication, such as *The Wall Street Journal* or "Composite Closing Quotations for United States Government Securities" published by the Federal Reserve Bank of New York; (c) with respect to each investment agreement, an amount equal to the principal amount required to be remitted to the Trustee (without regard to notice requirements of 7 days or less) pursuant to the terms of such investment agreement if all Notes and other Obligations were redeemed on the date of computation following an Event of Default under the Indenture or such other amount as shall be computed in accordance with procedures approved by the Insurer; (d) with respect to each repurchase agreement, an amount equal to the unpaid repurchase price thereof as of such date; (e) with respect to any money market fund or other mutual fund, the amount which the Trustee would be entitled to withdraw therefrom on the date of computation (computed, to the extent applicable, on the basis of valuations as of the close of business on the preceding Business Day), without regard to notice requirements of 7 days or less; and (f) with respect to any investment not covered by clauses (a) through (e) above, such amount as shall be computed in a manner acceptable to the Insurer, such acceptability to be evidenced by a written statement that computing the Value of Investment Securities in such manner is acceptable to the Insurer. To the extent not otherwise provided, accrued interest shall be added to all computations made under this paragraph.

"Winning Bid Rate" shall have the meaning as described in APPENDIX E, "AUCTION PROCEDURES".

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\$113,000,000
Maximum Principal Amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996
Auction Rate Securities

APPENDIX B

INDEX OF CERTAIN TERMS

The following is an index of certain terms used herein and the first page on which the term is either defined or used in either the summary, the main text or APPENDIX A of the Offering Memorandum.

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\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996

APPENDIX C

DESCRIPTION OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

Introduction

The following descriptions of the Federal Family Education Loan Program (the "FFELP", formerly known as the Guaranteed Student Loan Program, including the Stafford Student Loan Program, the Supplemental Loans for Students Program, Parent Loans for Undergraduate Students (PLUS) Program, and Consolidation Loan Program as authorized under Title IV, part B of the Higher Education Act of 1965, as amended) (the "Act") are qualified in their entirety by reference to the Act. Since its original enactment in 1965, the Act has been amended and reauthorized several times, including in 1986, 1990, 1992 and 1993. There can be no assurance that the Act, or other relevant law, will not be changed in a manner that will adversely impact the programs described below. In particular, the enacted legislation and other measures described under "Legislative and Administrative Matters" below, or future measures may adversely affect these programs.

Legislative and Administrative Matters

General

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

Credit Reform

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

Anticipated Changes in Legislation

Congress may consider amendments to the Act to achieve budget savings in the near future. While it is unclear what changes will be included in the final legislation (if any), it is possible that a reduction in a lender's yield on FFELP loans and a decrease in the percentage of such loans covered by a guarantee will be enacted. It is anticipated that the applicability of such changes would be limited to loans made on or after the date of enactment.

Eligibility Requirements for Educational Institutions

The 1990 Reconciliation Act made major changes in the provisions granting eligibility to educational institutions to participate in the FFELP. The Act eliminated eligibility for any institution with a default rate over 35%, with the exception of historically black colleges, certain tribally-controlled community colleges and other schools that can demonstrate "exceptional mitigating circumstances" to the satisfaction of the Secretary. Both of these changes are expected to eliminate from the FFELP many new loans with a high probability of default. In addition, the Reauthorization Bill lowered the default rate trigger for disqualifying schools to 25% beginning in fiscal year 1994, further reducing the risk of default in the program.

Reauthorization of the Act; Financial Status of Guarantors

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

Reversal of Scheduled July 1, 1998 Interest Rate Computation Changes. The Omnibus Budget Reconciliation Act of 1993 ("OBRA") amended the Act to change the formulae for borrower interest rates and special allowance payments under the FFELP, effective July 1, 1998. Specifically, OBRA (i) changed the interest index for the FFELP formulae for interest rates on loans, interest subsidy payments and special allowance payments from the bond equivalent yield on 91-day Treasury Bills to the bond equivalent yield on "securities with a comparable maturity (to the Loans) as determined by the Secretary" ("CMI" or "Comparable Maturity Index") (e.g., 10-year Treasury Notes), and (ii) modified applicable maximum interest rates. Under OBRA, to establish the

annual interest rates on loans (including Interest Subsidy Payments on behalf of eligible borrowers), the CMI is to be determined on the immediately preceding June 1 for each annual period beginning on July 1 and ending on June 30. Also under OBRA, to establish quarterly Special Allowance Payments to eligible holders of loans, the CMI based interest rate on the loan is subtracted from the CMI, after which 1.0% is added to the resultant percent, and the resultant percent is divided by 4. These changes apply to subsidized or unsubsidized Stafford Loans and PLUS loans made, insured or guaranteed under FFELP, and for which the first disbursement is made on or after July 1, 1998. Unless modified by a change in the law, the applicable rates of interest for loans to which these changes apply are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	CMI + 1.0%	8.25%
PLUS Loans	CMI + 2.1%	9.00%

On June 9, 1998, President Clinton signed Public Law 105-78. Section 8301 of P.L. 105-178 establishes the following borrower rates of interest for loans to which the provisions would apply as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 1.7%	8.25%
	(in-school, grace and deferment periods)	
	91-Day T-Bill + 2.3%	8.25%
	(repayment periods)	
PLUS Loans	91-Day T-Bill + 3.1%	9.0%

Federal Direct Student Loan Program

Commencing in academic year 1994/1995, the 1993 Amendments initiated a Federal Direct Student Loan Program ("FDSLP"). In order to ensure expeditious but orderly transition from the FFELP to the FDSLP, the Secretary will endeavor to enter into an adequate number of FDSLP participation agreements with institutions of higher education such that the student loan volume will increase from 5% in academic year 1994/1995, to 40% in 1995/1996, 50% in 1996, 50% in 1997/1998 and 60% for the academic year beginning in 1998. The Secretary met the 1994/1995 goal, and it appears likely that the Secretary will substantially meet the goal for 1995/1996. The Secretary may exceed the goals established for academic years commencing after 1995/1996 if the Secretary determines that a higher percentage is warranted by the number of institutions of higher education that desire to participate in the FDSLP and meet the eligibility requirements. Generally, student loans made under the FDSLP will have parallel terms and conditions, benefits and amounts as the Stafford Loans, Plus Loans and Unsubsidized Stafford Loans described below. The FDSLP provides a variety of flexible repayment plans, including extended, graduated and income contingent plans, forbearance of payments during periods of national service and consolidation of FDSLP loans with FFELP loans.

Prepayment in Connection with Federal Direct Consolidation Loan

The 1993 Amendments also initiated a Federal Direct Consolidation Loan Program to allow the Secretary to provide borrowers with a consolidation loan at interest rates below those which would be offered by FFELP lenders and under income contingent repayment terms that are not available from FFELP lenders. The availability of such loans may increase the likelihood that a Financed Eligible Loan will be prepaid through the issuance of such a loan. The volume of outstanding student loans that may be consolidated through the Federal Direct Consolidation Loan Program is not determinable at this time.

Risk Sharing Provisions

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

Servicer Provisions

The Reauthorization Bill authorized the Secretary to regulate Servicers, including the regulation of their financial responsibility. On April 29, 1994, the Secretary published regulations amending the Student Assistance General Provisions and FFELP regulations. These regulations, among other things, establish requirements governing contracts between institutions and third-party servicers, strengthen sanctions against institutions for violations of the program requirements of the Act, establish similar sanctions for third-party servicers and establish standards of administrative and financial responsibility for third-party servicers that administer any aspect of a guarantee agency's or lender's participation in the FFELP. Under these regulations, third-party servicers such as the Servicer are jointly and severally liable with their client lenders for liabilities to the Secretary arising from the servicer's violation of applicable requirements. In addition, if a servicer fails to meet standards of financial responsibility or administrative capability included in the new regulations, or violates other FFELP requirements, the new regulations authorize the Secretary to fine the servicer and/or limit, suspend or terminate the servicer's eligibility to contract to service FFELP loans. The effect of such a limitation or termination on the servicer's eligibility to service loans already on the system or new loans for servicing under existing contracts is unclear.

Eligibility Requirements for Stafford Loans

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

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

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

Qualified Student

Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution, (b) 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, (c) has agreed to promptly notify the holder of the loan of any address change, (d) meets the applicable "needs" requirements and (e) if they are an undergraduate enrolled in an institution participating in the Pell Grant Program, then their eligibility or ineligibility for the Pell Grant Program has been determined. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. Each loan is to be evidenced by an unsecured note.

Principal and Interest

Stafford Loans may bear interest at a rate not in excess of 7% per annum if made to a borrower to cover costs of instruction for any period beginning prior to January 1, 1981 or, subsequent to such date, if made to a borrower who, upon entering into a note for a loan, has outstanding Student Loans under the FFELP for which the interest rate does not exceed 7%. Stafford Loans made for periods of instruction between January 1, 1981 and September 13, 1983 bear interest at a rate of 9% per annum and for periods of instruction beginning on or after September 13, 1983 the rate is 8% per annum. Further, loans to first time borrowers for periods of enrollment beginning on or after July 1, 1988, bear interest at rates of 8% per annum from disbursement through four years after repayment commences and 10% per annum thereafter, subject to a provision requiring annual discharge of principal or rebate to the borrower to the extent that the sum of quarterly calculations of the amount by which interest calculated upon the latter rate (10%) exceeds the amount which would result from application of a rate equivalent to the 91-day Treasury bill rate plus 3.25%. However, under the Higher Education Technical Amendments of 1993, which was signed into law by the President on December 20, 1993, lenders converted all loans subject to this provision to a variable rate equal to the 91-day Treasury bill rate plus 3.25% or, in the case of a loan made to a borrower with outstanding Student Loans under the FFELP after October 1, 1993, the 91-day Treasury bill rate plus 3.1%, such conversion having taken place on or about January 1, 1995.

Under the Reauthorization Bill, Stafford Loans to new borrowers made on or after October 1, 1992 bear interest at a variable rate adjusted annually based on the most recent Obligation equivalent rate of the 91-day Treasury bill rate plus 3.1%. In addition, new loans made to borrowers with outstanding Guaranteed Student Loans effectively bear interest to the lenders at the same rate, subject to conversion to a variable rate prior to January 1, 1995 as described above.

The Omnibus Budget Reconciliation Act of 1993 ("OBRA") amended the Act to change the formulae for borrower interest rates under the FFELP, effective July 1, 1998. Specifically, OBRA (i) changed the interest index for the FFELP formulae for interest rates on loans and interest subsidy payments from the bond equivalent yield on 91-day Treasury Bills to the bond equivalent yield on "securities with a comparable maturity (to the Loans) as determined by the Secretary" ("CMI" or "Comparable Maturity Index") (e.g., 10-year Treasury Notes), and (ii) modified applicable maximum interest rates. Under OBRA, to establish the annual interest rates on loans (including Interest Subsidy Payments on behalf of eligible borrowers), the CMI is to be determined on the immediately preceding June 1 for each annual period beginning on July 1 and ending on June 30. This change applies to subsidized or unsubsidized Stafford Loans and PLUS loans made, insured or guaranteed under FFELP, and for which the first disbursement is made on or after July 1, 1998. Unless modified by a change in the law, the applicable rates of interest for loans to which these changes apply are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	CMI + 1.0%	8.25%
PLUS Loans	CMI + 2.1%	9.00%

On June 9, 1998, President Clinton signed Public Law 105-78. Section 8301 of P.L. 105-178

establishes the following borrower rates of interest for loans to which the provisions would apply as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 1.7%	8.25%
	(in-school, grace and deferment periods)	
	91-Day T-Bill + 2.3%	8.25%
	(repayment periods)	
PLUS Loans	91-Day T-Bill + 3.1%	9.0%

This changes applies to subsidized or unsubsidized Stafford Loans and PLUS loans made, insured or guaranteed under FFELP and for which the first disbursement is made on or after July 1, 1998 and before October 1, 1998.

On May 6, 1998, the U.S. House of Representatives passed H.R. 6, the Higher Education Amendments of 1998, by a vote of 414-4. Among other things, H.R. 6 provides for the extension of the Act through Federal Fiscal Year 2004 and authorizes appropriations for, and provides for the duration of, each program conducted under the Act. Included in H.R. 6, as amended by the House Committee on Education and the Workforce on March 19, 1998, are provisions amending the prior OBRA changes to the Act discussed above to return to a 91-day Treasury Bill based index. Under the legislation the applicable borrower rates of interest for loans to which the provisions would apply are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford	91-Day T-Bill + 1.7%	8.25%
	(in-school, grace and deferment periods)	
	91-Day T-Bill + 2.3%	8.25%
	(repayment periods)	
PLUS Loans	91-Day T-Bill + 3.1%	9.0%

Under the legislation, the borrower interest rate would be determined on the immediately preceding June 1 for each annual period beginning on July 1 and ending on June 30.

On July 9, 1998, the U.S. Senate approved its version of the Higher Education Amendments of 1998 (also H.R. 6) by a vote of 96 to 1. Among other things, the legislation provides for the extension of the Act through Federal Fiscal Year 2003 and authorizes appropriations for and provides for the duration of, each program authorized by the Act. Included in the Senate-passed version of H.R. 6 are borrower interest rate provisions identical to those in the legislation approved by the House of Representatives.

Conferees of the House of Representatives and U.S. Senate will meet to reconcile differences between the House and Senate passed versions of the legislation. Following resolution of differences and passage of the legislation in identical form by the House and Senate, the legislation will be presented to the President for approval. There can be no assurance that the President will sign the legislation or, if the President vetoes this legislation, that the veto will be overridden by Congress.

On July 6, 1998, the Department of Education announced the interest rates for variable rate loans made under the William D. Ford Federal Direct Loan and Federal Family Education Loan programs for the period July 1, 1998 through June 30, 1999. For Direct Subsidized Consolidation and Direct Unsubsidized Consolidation Loans for which the first disbursement is made on or after July 1, 1998, or for which the consolidation loan application is received by the Secretary on or after July 1, 1998, the applicable borrower interest rates are as follows:

<u>Loan Type</u>	<u>Interest Basis</u>	<u>Borrower Max. Rate</u>
Subsidized & Unsubsidized Stafford Consolidation Loans	91-Day T-Bill + 1.7% (in-school, grace and deferment periods)	8.25%
	91-Day T-Bill + 2.3% (repayment periods)	8.25%
PLUS Consolidation Loans	91-Day T-Bill + 3.1%	9.0%

The Higher Education Amendments of 1998 (S. 1882/H.R. 6) may change the borrower interest rates applicable to Consolidations Loans. The House bill proposes basing consolidation loan interest rates on a formula based on the weighted average of the interest rates on the loans being consolidated, while the Senate has no proposal for changing rates on consolidation loans. Those Members of Congress charged with negotiating the differing provisions of the two versions of the legislation will have to propose a new formula for consolidation loan interest rates during conference committee negotiations.

Disbursement Requirements

The Act now requires that all Stafford, PLUS and SLS loans be disbursed by eligible lenders in at least two separate installments. The proceeds of a loan made to any undergraduate first-year student borrowing for the first time under the program must be delivered to the student no earlier than thirty days after the enrollment period begins. Under the Reauthorization Bill the annual Stafford limits for first year students is \$2,625 (except that lower limits apply to certain short-term courses of study) but increase to \$3,500 for second year students, \$5,500 for third and fourth year students, and \$8,500 for graduate and professional students. The aggregate limit is at \$23,000 for undergraduates and \$65,500 for graduate and professional students. Under the prior law, undergraduates could borrow under the Stafford program up to \$2,625 annually through the completion of the second year of instruction and \$4,000 annually thereafter. Undergraduate aggregate Stafford loan limits were set at \$17,250. Graduate or professional students could borrow up to \$7,500 annually, subject to an aggregate limit of \$54,750, inclusive of loans for undergraduate study.

Repayment

Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins upon expiration of the applicable Grace Period, as described below. Such Grace Periods may be waived by borrowers. In general, each such loan must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Act currently requires minimum annual payments of \$600 including principal and interest, unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total of combined payments for such a couple may not be less than \$600 per year.

Grace Period, Deferment Periods, Forbearance

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

deferment categories for new loans and expanded the opportunities for students to obtain forbearance from lenders due to temporary financial hardship.

Interest Benefit Payments

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

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

Special Allowance Payments

The Act provides, subject to certain conditions, for Special Allowance Payments to be made quarterly by the Secretary to Registered Owners of qualifying Insured Loans and Guaranteed Loans.

The rate of Special Allowance Payments for a particular loan is dependent on a number of factors, including when the loan was disbursed and for what period of enrollment the loan covers costs. Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment for a quarter will be between 3.1 and 3.50 percentage points above the average of Obligation equivalent rates of 91-day Treasury bills auctioned for that quarter. Under the Reauthorization Bill, the Special Allowance Payment is calculated based on the Obligation equivalent rate of the 91-day Treasury bill plus 3.1% for loans made on or after October 1, 1992, except that, under the 1993 Amendments, Stafford Loans made on or after July 1, 1995, qualify for Special Allowance Payments based on the 91-day Treasury bill rate plus 2.5% while the borrower is in in-school, grace or deferment status. In the case of certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations originally issued prior to October 1, 1993, the Special Allowance Payments are reduced by approximately one-half, but not less than certain minimums provided in the Act. The rate of Special Allowance Payments may be reduced as a result of certain federal budget deficit reduction measures (see discussion above).

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

Unsubsidized Stafford Loan Program

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

PLUS and SLS Loans

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

SLS Loans are limited to \$4,000 per academic year (except for SLS Loans for attendance at certain specified short term courses of study in which case the limit is lower) with a maximum aggregate amount of \$20,000. PLUS and SLS Loans are limited, generally, to the cost of attendance minus other financial aid for which the student is eligible. A determination of a student's eligibility for the Pell Grant and the Stafford Loan Program is a condition of the student's receipt of a SLS Loan. Under the Reauthorization Bill, there are no annual or aggregate limits applicable to PLUS loans, except that parents continue to be prohibited from borrowing amounts in excess of the student's cost of attendance. SLS loan limits remain constant for first year and second year students, but increase to \$5,000 for third and fourth year students, and to \$10,000 for graduate and professional students. Aggregate limits for SLS loans are \$23,000 for undergraduate students and \$73,000 for graduate and professional students.

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

Repayment of principal of PLUS and SLS Loans is required to commence no later than 60 days after the date of disbursement of such loan, subject to certain deferral provisions. The deferral provisions which apply are more limited than those which apply to Stafford Loans.

Whereas federal Interest Benefit Payments are not available for such deferments, the Act provides an opportunity for the capitalization of interest during such periods upon agreement of the lender and borrower. The applicable annual loan limit is not violated by any decision to capitalize interest.

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

Consolidation Loans

The Act includes a program for eligible borrowers to consolidate FFELP and specified other federally-supported student loans into a single Consolidation Loan offering longer repayment terms and other benefits. Under the program, an eligible borrower means a borrower with an outstanding indebtedness of at least \$7,500, who is in repayment status or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation. The \$7,500 threshold is eliminated for loans consolidated on or after July 1, 1994. The loans under this program are designated "Consolidation Loans". Under this program, a lender will make a Consolidation Loan to an eligible borrower at the request of the borrower if the lender holds an outstanding loan of the borrower or the borrower certifies that he has been unable to obtain a Consolidation Loan from the holders of the outstanding loans of the borrower.

Consolidation Loans bear an interest rate equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent; for loans consolidated prior to July 1, 1994 such rate will not be less than nine percent per annum. The repayment schedules for Consolidation Loans will not exceed: 12 years for loans greater than or equal to \$7,500, but less than \$10,000; 15 years for loans greater than or equal to \$10,000, but less than \$20,000; 20 years for loans greater than or equal to \$20,000, but less than \$40,000; 25 years for loans greater than or equal to \$40,000, but less than \$60,000; and not more than 30 years for loans in excess of \$60,000. Effective July 1, 1994, consolidation loans for less than \$7,500 have a repayment schedule of not more than 10 years. Repayment must commence within 60 days after all holders have discharged the liability of the borrower on the loans selected for consolidation. Effective for Consolidation Loan applications received by lenders on or after August 10, 1993, the Secretary will not make federal Interest Benefit Payments on Consolidation Loans other than those loans which consolidate only subsidized Stafford Loans.

Education Loans Generally Not Subject to Discharge in Bankruptcy

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

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

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

(A) such loan, benefit, scholarship or stipend overpayment first became due more than 7 years (exclusive of any applicable suspension of the repayment period) before the date of the filing of the petition; or

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

The 1990 Budget Reconciliation legislation (P.L. 101-508) and the Crime Control Act of 1990 (P.L. 101-647) amended the U.S. Bankruptcy Code to clarify the nondischargeability of educational loans under Chapter 13 bankruptcy filings. The legislative intent behind the nondischargeable status of educational loans is twofold: first, to prevent abuse and fraud by student borrowers in declaring bankruptcy immediately after completion of school but before accumulation of any attachable assets; and second, as a public policy issue to encourage and ensure the continued availability of credit and funding for educational borrowing.

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\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996

APPENDIX D

CASH FLOW ASSUMPTIONS AND OTHER CONSIDERATIONS

The Current Cash Flow Projection contemplates the acquisition of approximately \$47,950,000 in principal, accrued interest and premium amount of Student Loans that will be acquired by the Foundation with the net proceeds from the Notes offered hereby. Approximately \$47,400,000 of such proceeds will be used to purchase Student Loans on the closing date, and approximately \$550,000 of acquisition money will be used to purchase Student Loans before December 31, 1998. As of May 31, 1998, the Foundation has purchased approximately \$53,861,851 in principal amount of Student Loans with the net proceeds of the Outstanding Notes. For the Current Cash Flow Projections the actual collateral was used for the initial purchase. Such Loans are assumed to be recycled into additional loans with similar loan characteristics until October 1, 2001 except that in such case a 30 basis point (.30%) reduction in Loan yield was assumed. Fees are assumed to be a 0.25% administration fee, a 0.215% Auction Agent/Broker Dealer's fee and 0.035% Trustee's fee. The Loan portfolio consisting of (i) Student Loans purchased through May 31, 1998 and (ii) Student Loans expected to be purchased with the net proceeds of the Notes offered hereby is expected to have the following approximate characteristics:

<u>Loan Type</u>	<u>\$ Amount</u>	<u>% of Balance</u>
PLUS/SLS	\$ 1,275,930	1.32%
Stafford/Subsidized	\$64,155,089	66.49%
Stafford/Unsubsidized	\$24,487,643	25.38%
Consolidated	\$ 6,563,573	6.80%
<u>Status</u>		
Grace	\$16,124,084	16.71%
Repayment	\$45,790,763	47.46%
Deferment	\$10,887,739	11.28%
School	\$ 6,959,768	7.21%
Claim	\$ 99,230	0.21%
Forbearance	\$16,520,658	17.12%
<u>Disbursement Date</u>		
Pre 10/1/93	\$10,104,666	10.47%
Post 10/1/93	\$86,377,568	89.53%

Investments held in the Reserve Subaccount, Revenue Account, Acquisition Account and Additional Collateral Account are assumed to be invested at the 91-Day T-Bill.

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\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996

APPENDIX E

AUCTION PROCEDURES

Auction Participants.

Existing Holders and Potential Holders. Participants in each Auction include: (i) an "Existing Holder", which means, for purposes of dealing with the Auction Agent in connection with an Auction, a Person who is a Broker-Dealer listed in the Existing Holder Registry at the close of business on the Business Day preceding such Auction, and, for purposes of dealing with the Broker-Dealer in connection with an Auction, a Person who is a beneficial owner of Notes and (ii) a "Potential Holder", which means any Person (including an Existing Holder) that is a Broker-Dealer for purposes of dealing with the Auction Agent, and a potential beneficial owner for purposes of dealing with a Broker-Dealer, who may be interested in acquiring Notes.

By purchasing the Notes, whether in an Auction or otherwise, each prospective purchaser of the Notes or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms described in the Indenture; (ii) so long as the beneficial ownership of the Notes is maintained in Book-entry Form to sell, transfer or otherwise dispose of Notes, only pursuant to a Bid (as defined below) or a Sell Order (as defined below) in an Auction, or to or through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of Notes so transferred, its Participant or Broker-Dealer advises the Auction Agent of such transfer, (iii) to have its beneficial ownership of Notes maintained at all times in Book-entry Form for the account of its Participant, which in turn will maintain records of such beneficial ownership, and to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; (iv) that a Sell Order placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Notes specified in such Sell Order; (v) that a Bid placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of Notes specified in such Bid if the rate specified in such Bid is greater than, or in some cases equal to, the Interest Rate, determined as described in this APPENDIX E; (vi) that a Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the principal amount, or a lesser principal amount, of the Notes specified in such Bid if the rate specified in such Bid is, respectively, less than or equal to the Auction Rate, determined as described in this APPENDIX E; and (vii) to tender its Notes for purchase at 100% of the principal amount thereof, plus accrued but unpaid interest and unpaid Carry-over Amount, if any, and interest accrued thereon, on a Conversion Date.

The principal amount of the Notes purchased or sold may be subject to proration procedures on the Auction Date. Each purchase or sale of the Notes on the Auction Date will be made for settlement on the first day of the Interest Period immediately following such Auction Date at a price equal to 100% of the principal amount thereof plus accrued interest, if any. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

Auction Agent. Bankers Trust Company was appointed in the Indenture as Initial Auction Agent to serve as agent for the Foundation in connection with Auctions. The Foundation has entered into the Initial Auction Agent Agreement with Bankers Trust Company, as the Initial Auction Agent. Any Substitute Auction Agent will be (i) a bank, national banking association or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Trustee, the Foundation and the Market Agent in writing and having a combined capital stock or surplus of at least \$50,000,000, or (ii) a member of the National

Association of Securities Dealers, Inc. having a capitalization of at least \$50,000,000, and, in either case, authorized by law to perform all the duties imposed upon it under the Indenture and under the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the Indenture by giving at least 90 days notice to the Trustee, the Foundation, the Insurer and the Market Agent. The Auction Agent may be removed at any time by the Foundation and the Insurer or the Holders of at least 66-2/3% of the aggregate principal amount of the Notes then Outstanding, by an instrument signed by such Holders or their attorneys and filed with the Auction Agent, the Foundation, the Trustee, the Insurer and the Market Agent upon at least 90 days notice. Neither resignation nor removal of the Auction Agent pursuant to the preceding two sentences will be effective until and unless a Substitute Auction Agent has been appointed and has accepted such appointment. A Substitute Auction Agent Agreement will be entered into with a Substitute Auction Agent. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 45 days after notifying the Trustee, the Insurer, the Foundation and the Market Agent in writing that it has not received payment of any Auction Agent Fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

If the Auction Agent should resign or be removed or be dissolved, or if the property or affairs of the Auction Agent will be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason the Foundation shall use its best efforts to appoint a Substitute Auction Agent with the prior written consent of the Insurer, which consent shall not be unreasonably withheld.

The Auction Agent is acting as agent for the Foundation in connection with Auctions. In the absence of bad faith, negligent failure to act or negligence on its part, the Auction Agent will not be liable for any action taken, suffered or omitted or any error of judgment made by it in the performance of its duties under the Auction Agent Agreement and will not be liable for any error of judgment made in good faith unless the Auction Agent will have been negligent in ascertaining (or failing to ascertain) the pertinent facts.

The Foundation will pay or cause to be paid to the Auction Agent the Auction Agent Fee and will reimburse the Auction Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Auction Agent in accordance with any provision of the Auction Agent Agreement or the Broker-Dealer Agreements (including the reasonable compensation and the expenses and disbursements of its agents and counsel). Such amounts are payable from the Revenue Account. The Foundation will indemnify and hold harmless the Auction Agent for and against any loss, liability or expense incurred without negligence or bad faith on the Auction Agent's part, arising out of or in connection with the acceptance or administration of its agency under the Auction Agent Agreement and the Broker-Dealer Agreements including the reasonable costs and expenses (including the reasonable fees and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its duties under the Indenture, the Auction Agent Agreement and the Broker-Dealer Agreements and of enforcing this indemnification provision; provided that the Foundation will not indemnify the Auction Agent as described in this paragraph for any fees and expenses incurred by the Auction Agent in the normal course of performing its duties under the Auction Agent Agreement and under the Broker-Dealer Agreements, such fees and expenses being payable as described above.

Broker-Dealer. Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a "Broker-Dealer", including Smith Barney Inc. as the sole initial Broker-Dealer or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is a Participant or an affiliate of a Participant, (ii) has been selected by the Foundation and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealers are entitled to a Broker-Dealer Fee, which is payable by the Auction Agent from moneys received from the Foundation, on each Interest Payment Date. Such Broker-Dealer Fee is payable from the Revenue Account as provided in the Indenture and the Broker-Dealer Agreement.

Market Agent. Under the Market Agent Agreement, and in connection with the Notes, the "Market Agent", initially Smith Barney Inc., acts solely as agent and does not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners. The Market Agent does not receive any compensation for the performance of its duties under the Market Agent Agreement.

Auction Procedures.

General. Auctions to establish the Auction Rate for the Notes will be held on each Auction Date, except as described under "THE NOTES - Interest Rates on the Notes" by application of the Auction Procedures described in the Indenture. "Auction Date" means, with respect to the Notes, the Business Day immediately preceding the commencement of each Auction Period, other than: (i) each Auction Period commencing after the ownership of such Notes is no longer maintained in Book-entry Form; (ii) each Auction Period commencing after and during the continuance of a Payment Default; or (iii) any Auction Period commencing less than two Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under "Changes in Auction Terms".

The Auction Agent will calculate the Net Loan Rate, the Maximum Auction Rate, the All Hold Rate, and the Applicable LIBOR-Based Rate on each Auction Date. Upon receipt of notice from the Trustee of a failed Conversion as described in the Indenture, the Auction Agent will calculate the Maximum Auction Rate and the Net Loan Rate as of such failed Conversion Date and give notice thereof as provided and to the parties specified in the Auction Agent Agreement. If the ownership of the Notes is no longer maintained in Book-entry Form, the Trustee will calculate the Maximum Auction Rate and the Net Loan Rate on the Business Day preceding the first day of each Interest Period commencing after delivery of the Note certificates. If a Payment Default has occurred, the Trustee will calculate the Non-Payment Rate on the Auction Rate Determination Date for (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default. The Auction Agent will determine the Net Loan Rate for each Interest Period other than the Initial Period; provided, that if the ownership of the Notes is no longer maintained in Book-entry Form, or if a Payment Default has occurred, then the Trustee will determine the Net Loan Rate for each such Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of the Applicable LIBOR-Based Rate will (in the absence of manifest error) be final and binding upon the Noteholders and all other parties.

Submission of Orders. So long as the ownership of the Notes is maintained in Book-entry Form, an Existing Holder may sell, transfer or otherwise dispose of Notes only pursuant to a Bid or Sell Order (as hereinafter defined) placed in an Auction or through a Broker-Dealer, provided that, in the case of all transfers other than pursuant to Auctions, such Existing Holder, its Broker-Dealer or its Participant advises the Auction Agent of such transfer. Prior to a Conversion Date, Auctions will be conducted on each Auction Date, if there is an Auction Agent on such Auction Date, in the following manner.

Prior to the Submission Deadline (defined as 12:30 P.M., eastern time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Auction Date:

(a) each Existing Holder of Notes may submit to a Broker-Dealer or otherwise information as to: (i) the principal amount of Outstanding Notes, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Interest Rate for the next succeeding Auction Period (a "Hold Order"); (ii) the principal amount of Outstanding Notes, if any, which such Existing Holder offers to sell if the Interest Rate for the next succeeding Auction Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of Outstanding Notes, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Interest Rate for the next succeeding Auction Period (a "Sell Order"); and

(b) one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Notes which each such Potential Holder offers to purchase, if the Interest Rate for the next succeeding Auction Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

Each Hold Order, Bid and Sell Order will be an "Order". Each Existing Holder and each Potential Holder placing an Order is referred to as a "Bidder".

Subject to the provisions described below under "Validity of Orders", a Bid by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Notes specified in such Bid if the Auction Rate will be less than the rate specified in such Bid, (ii) such principal amount or a lesser principal amount of Outstanding Notes to be determined as described below in "Acceptance and Rejection of Orders", if the Auction Rate will be equal to the rate specified in such Bid or (iii) such principal amount or a lesser principal amount of Outstanding Notes to be determined as described below under "Acceptance and Rejection of Orders", if the rate specified therein will be higher than the Maximum Rate and Sufficient Clearing Bids (as defined below) have not been made.

Subject to the provisions described below under "Validity of Orders", a Sell Order by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Notes specified in such Sell Order or (ii) such principal amount or a lesser principal amount of Outstanding Notes as described below under "Acceptance and Rejection of Orders", if Sufficient Clearing Bids have not been made.

Subject to the provisions described below under "Validity of Orders", a Bid by a Potential Holder will constitute an irrevocable offer to purchase: (i) the principal amount of Outstanding Notes specified in such Bid if the Auction Rate will be higher than the rate specified in such Bid or (ii) such principal amount or a lesser principal amount of Outstanding Notes as described below in "Acceptance and Rejection of Orders", if the Auction Rate is equal to the rate specified in such Bid.

Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order: (i) the name of the Bidder placing such Order; (ii) the aggregate principal amount of Notes that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder: (a) the principal amount of Notes, if any, subject to any Hold Order placed by such Existing Holder; (b) the principal amount of Notes, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and (c) the principal amount of Notes, if any, subject to any Sell Order placed by such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder's Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next higher one-thousandth (.001) of one percent.

If an Order or Orders covering all Outstanding Notes held by any Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Notes held by such Existing Holder and not subject to an Order submitted to the Auction Agent.

Neither the Foundation, the Trustee nor the Auction Agent will be responsible for any failure of a Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Holder or Potential Holder.

An Existing Holder may submit multiple Orders, of different types and specifying different rates, in an Auction with respect to Notes then held by such Existing Holder. An Existing Holder that offers to purchase additional Notes is, for purposes of such offer, treated as a Potential Holder.

Any Bid specifying a rate higher than the Maximum Auction Rate will (i) be treated as a Sell Order if submitted by a Existing Holder and (ii) not be accepted if submitted by a Potential Holder.

Validity of Orders. If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Notes held by such Existing Holder, such Orders will be considered valid as follows and in the order of priority described below.

Hold Orders. All Hold Orders will be considered valid, but only up to the aggregate principal amount of Outstanding Notes held by such Existing Holder, and if the aggregate principal amount of Notes subject to such Hold Orders exceeds the aggregate principal amount of Notes held by such Existing Holder, the aggregate principal amount of Notes subject to each such Hold Order will be reduced pro rata so that the aggregate principal amount of Notes subject to all such Hold Orders equals the aggregate principal amount of Outstanding Notes held by such Existing Holder.

Bids. Any Bid will be considered valid up to the amount of the excess of the principal amount of Outstanding Notes held by such Existing Holder over the aggregate principal amount of Notes subject to any Hold Orders referred to above. Subject to the preceding sentence, if multiple Bids with the same rate are submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Notes subject to such Bids is greater than such excess, such Bids will be considered valid up to the amount of such excess. Subject to the two preceding sentences, if more than one Bid with different rates are submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to the amount of such excess. In any event, the aggregate principal amount of Outstanding Notes, if any, subject to Bids not valid under the provisions described above will be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

Sell Orders. All Sell Orders will be considered valid up to the amount of the excess of the principal amount of Outstanding Notes held by such Existing Holder over the aggregate principal amount of Notes subject to valid Hold Orders and valid Bids as referred to above.

If more than one Bid for Notes is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Notes not equal to an Authorized Denomination will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an aggregate principal amount of Notes not equal to an Authorized Denomination will be rejected. Any Order submitted in an Auction by a Broker-Dealer to the Auction Agent prior to the Submission Deadline on any Auction Date will be irrevocable.

A Hold Order, a Bid or a Sell Order that has been determined valid pursuant to the procedures described above is referred to as a "Submitted Hold Order", a "Submitted Bid" and a "Submitted Sell Order", respectively (collectively, "Submitted Orders").

Determination of Sufficient Clearing Bids and Winning Bid Rate. Not earlier than the Submission Deadline on each Auction Date, the Auction Agent will assemble all valid Submitted Orders and will determine:

(a) the excess of the total principal amount of Outstanding Notes over the sum of the aggregate principal amount of Outstanding Notes subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Notes"); and

(b) from such Submitted Orders whether the aggregate principal amount of Outstanding Notes subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Auction Rate exceeds or is equal to the sum of (i) the aggregate principal amount of Outstanding Notes subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Auction Rate and (ii) the aggregate principal amount of Outstanding Notes subject to Submitted Sell Orders (in the event such excess or such equality exists other than because all of the Outstanding Notes are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders above will be hereinafter referred to collectively as "Sufficient Clearing Bids"); and

(c) if Sufficient Clearing Bids exist, the "Winning Bid Rate" will be the lowest rate specified in such Submitted Clearing Bids such that if:

(i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to hold the principal amount of Notes subject to such Submitted Bids); and

(ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates, were accepted,

the result would be that such Existing Holders described in subparagraph (i) above would continue to hold an aggregate principal amount of Outstanding Notes which, when added to the aggregate principal amount of Outstanding Notes to be purchased by such Potential Holders described in subparagraph (ii) above, would equal not less than the Available Notes.

Notice of Auction Rate and Interest Rate. Promptly after the Auction Agent has made the determinations described above, the Auction Agent will advise the Trustee and the Foundation of the Net Loan Rate, the Applicable LIBOR-Based Rate, the Maximum Auction Rate, and the All Hold Rate and the components thereof on the Auction Date, and based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

(a) if Sufficient Clearing Bids exist, that the Auction Rate for the next succeeding Interest Period will be equal to the Winning Bid Rate so determined;

(b) if Sufficient Clearing Bids do not exist (other than because all of the Outstanding Notes are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Auction Rate; or

(c) if all Outstanding Notes are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period will be equal to the All Hold Rate.

Promptly after the Auction Agent has determined the Auction Rate, the Auction Agent will determine and advise the Trustee of the Interest Rate, which rate will be the lesser of (a) the Auction Rate and (b) the Net Loan Rate. In no event shall the Interest Rate exceed the applicable Interest Rate Limitation.

Acceptance and Rejection of Orders. Existing Holders will continue to hold the principal amount of Notes that are subject to Submitted Hold Orders. If the Net Loan Rate is equal to or greater than the Winning Bid Rate and if Sufficient Clearing Bids, as described above under "Determination of Sufficient Clearing Bids and Winning Bid Rate", have been received by the Auction Agent, the Winning Bid Rate will be the Auction Rate, and Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as set described below under "Sufficient Clearing Bids". If the Net Loan Rate is less than the Auction Rate, the Interest Rate will be the Net Loan Rate. If the Auction Agent has not received Sufficient Clearing Bids as described above under "Determination of Sufficient Clearing Bids and Winning Bid Rate" (other than because all of the Outstanding Notes are subject to Submitted Holds Orders), the Interest Rate will be the lesser of the Maximum Auction Rate or the Net Loan Rate. In any of the cases described above in this paragraph, Submitted Orders will be accepted or rejected and the Auction Agent will take such other action as described below under "Insufficient Bids."

Sufficient Clearing Bids. If Sufficient Clearing Bids have been made, all Submitted Sell Orders will be accepted and, subject to the denomination requirements described below, Submitted Bids will be accepted or rejected as follows in the following order of priority:

(a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Notes subject to such Submitted Bids;

(b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Notes subject to such Submitted Bids;

(c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be accepted;

(d) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Notes subject to such Submitted Bid, unless the aggregate principal amount of Notes subject to such Submitted Bids will be greater than the principal amount of Notes (the "remaining principal amount") equal to the excess of the Available Notes over the aggregate principal amount of Notes subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder will be rejected in part and such Existing Holder will be entitled to continue to hold the principal amount of Notes subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Notes obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the principal amount of Outstanding Notes held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Notes subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate;

(e) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be accepted, but only in an amount equal to the principal amount of Notes obtained by multiplying the excess of the aggregate principal amount of Available Notes over the aggregate principal amount of Notes subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Notes subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Notes subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate; and

(f) Each Potential Holder's Submitted Bid specifying a rate that is higher than the Winning Bid Rate will be rejected.

Insufficient Bids. If Sufficient Clearing Bids have not been made (other than because all of the Outstanding Notes are subject to Submitted Hold Orders), subject to the denomination requirements described below, Submitted Orders will be accepted or rejected as follows in the following order of priority:

(a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Notes subject to such Submitted Bids;

(b) Potential Holders' Submitted Bids specifying (i) a rate that is equal to or lower than the Maximum Rate will be accepted, and (ii) a rate that is higher than the Maximum Rate will be rejected; and

(c) Each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Notes subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Notes obtained by multiplying the aggregate principal amount of Notes subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Notes held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of

which will be the aggregate principal amount of Outstanding Notes subject to all such Submitted Bids and Submitted Sell Orders.

All Hold Orders. If all Outstanding Notes are subject to Submitted Hold Orders, all Submitted Bids will be rejected.

Authorized Denominations Requirement. If, as a result of the procedures described above regarding Sufficient Clearing Bids and Insufficient Bids, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Notes that is not equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it will determine, round up or down the principal amount of Notes to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Notes purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Sufficient Clearing Bids and Insufficient Bids, any Potential Holder would be entitled or required to purchase less than a principal amount of Notes equal to an Authorized Denomination or any integral multiple thereof, the Auction Agent will, in such manner as in its sole discretion it will determine, allocate Notes for purchase among Potential Holders so that only Notes in an Authorized Denomination are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Notes.

Based on the results of each Auction, the Auction Agent will determine the aggregate principal amount of Notes to be purchased and the aggregate principal amount of Notes to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Notes to be sold differs from such aggregate principal amount of Notes to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Notes.

The Foundation may not submit an Order in any Auction.

Any calculation by the Auction Agent (or the Trustee, if applicable) of the Auction Rate, the Applicable LIBOR-Based Rate, the Maximum Auction Rate, the All Hold Rate, the Net Loan Rate and the Non-Payment Rate will, in the absence of manifest error, be binding on all other parties.

Settlement Procedures. The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Interest Rate for the next Interest Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone not later than 3:00 p.m., eastern time, on the Auction Date if the interest rate is the Auction Rate and not later than 4:00 p.m., eastern time, on the Auction Date if the interest rate is the Net Loan Rate. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Interest Rate for the next Interest Period and if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling Notes as a result of the Auction and advise each Bidder purchasing or selling Notes as a result of the Auction to give instructions to its Participant to pay the purchase price against delivery of such Notes or to deliver such Notes against payment therefor, as appropriate. Pursuant to the Auction Agent Agreement, the Auction Agent will record each transfer of Notes on the Existing Holders Registry to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through DTC, so long as DTC is the Depository, and the accounts of the respective Participants at DTC will be debited and credited and Notes delivered as necessary to effect the purchases and sales of Notes as determined in the Auction. Purchasers are required to make payment through their Participants in same-day funds to DTC against delivery through their Participants. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Participants in immediately available funds.

If any Existing Holder selling Notes in an Auction fails to deliver such Notes, the Broker-Dealer of any person that was to have purchased Notes in such Auction may deliver to such person a principal amount of Notes that is less than the principal amount of Notes that otherwise was to be purchased by such person but in any event equal to an Authorized Denomination. In such event, the principal amount of Notes to be delivered will be determined by such Broker-Dealer. Delivery of such lesser principal amount of Notes will constitute good delivery. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Participant to deliver the principal amount of Notes or to pay for the Notes purchased or sold pursuant to an Auction or otherwise. For a further description of the settlement procedures, see APPENDIX F, "SETTLEMENT PROCEDURES".

Trustee Not Responsible for Auction Agent, Market Agent and Broker-Dealers.

The Trustee will not be liable or responsible for the actions of or failure to act by the Auction Agent, Market Agent or any Broker-Dealer under the Indenture or under the Auction Agent Agreement, the Market Agent Agreement or any Broker-Dealer Agreement. The Trustee may conclusively rely upon any information required to be furnished by the Auction Agent, the Market Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

Changes in Auction Terms.

Changes in Auction Period or Periods. The Foundation with the written consent of the Insurer, may change, from time to time, the length of the one or more Auction Periods in order to conform with the current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Notes (an "Auction Period Adjustment"). No such change in the length of the Auction Period shall be effective unless the Foundation has (i) provided the Insurer with a Cash Flow Certificate, (ii) received written confirmation that the Insurer has approved the proposed change in the Auction Period, which approval will not be unreasonably withheld, and (iii) received the written consent of the Market Agent, which consent shall not be unreasonably withheld, not less than three days nor more than 20 days prior to the effective date of an Auction Period Adjustment. The Foundation will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent, the Depository in substantially the form of, or containing substantially the information contained in, the Indenture at least 10 days prior to the Auction Date for such Auction Period.

No Auction Period Adjustment may result in an Auction Period of less than 7 nor more than 366 days. An Auction Period Adjustment will not be allowed unless Sufficient Clearing Bids existed (or all Notes were subject to Submitted Hold Orders) at both the Auction preceding the date on which the notice of the proposed change was given as described above and the Auction preceding the proposed change.

An Auction Period Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 A.M., eastern time, on the Business Day before the Auction Date for the first such Auction Period, a written consent from the Foundation authorizing an Auction Period Adjustment specified in such written consent, along with a copy of the written consent of the Market Agent described above and the written approval of the Insurer and (B) Sufficient Clearing Bids exist (or all Notes were subject to Submitted Hold Orders) at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) is not met, the Auction Rate applicable for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met, but the condition referred to in (B) above is not met, the Auction Rate applicable for the next Auction Period will be the Maximum Auction Rate and the length of the Auction Period will be the same as for the Auction Period prior to the proposed change.

Changes in the Auction Date. The Market Agent, with the written consent of the Foundation and the Insurer, which consent will not be unreasonably withheld, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in APPENDIX A with respect to one or more specified Auction

Periods in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the Interest Rate borne by the Notes. Neither the Foundation nor the Insurer will be required to consent to such change in the Auction Date unless it shall have received from the Market Agent not less than 3 days nor more than 20 days prior to the effective date of such change a written request for consent together with a certificate demonstrating the need for change in reliance on such factors. The Market Agent will provide notice of its determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least 10 days prior to the proposed changed Auction Date to the Trustee, the Insurer, the Auction Agent, the Foundation, the Insurer and the Depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the Indenture

In connection with any change in Auction terms described above, the Auction Agent will provide such further notice to such parties as is specified in the Auction Agent Agreement.

\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996

APPENDIX F

SETTLEMENT PROCEDURES

If not otherwise defined below, capitalized terms used below will have the meanings given such terms in the Indenture.

(a) Not later than (1) 3:00 P.M., eastern time, if the Interest Rate is the Auction Rate or (2) 4:00 P.M., eastern time, if the Interest Rate is the Net Loan Rate, on each Auction Date, the Auction Agent will notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:

(i) the Interest Rate fixed for the next Interest Period;

(ii) whether there were Sufficient Clearing Bids in such Auction;

(iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted Bids or Sell Orders on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part and the principal amount of Auction Rate Securities, if any, to be sold by such Existing Holder;

(iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Auction Rate Securities, if any, to be purchased by such Potential Holder;

(v) if the aggregate amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Participant, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be purchased from one or more Existing Holders on whose behalf such Seller's Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;

(vi) if the principal amount of Auction Rate Securities to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the amount of Auction Rate Securities to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Auction Rate Securities and the principal amount of Auction Rate Securities to be sold to one or more Potential Holders on whose behalf such Buyer's Broker-Dealer

acting by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted; and

(vii) the Auction Date for the next succeeding Auction.

(b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder will:

(i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;

(ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Participant to pay to such Buyer's Broker-Dealer (or its Participant) through the Depository the amount necessary to purchase the principal amount of the Auction Rate Securities to be purchased pursuant to such Bid against receipt of such Auction Rate Securities;

(iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Seller's Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Seller's Broker-Dealer (or its Participant) through the Depository the principal amount of Auction Rate Securities to be sold pursuant to such Order against payment therefor;

(iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Interest Rate for the next Interest Period;

(v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and

(vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.

(c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any Auction Rate Securities received by it in connection with such Auction pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any, on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.

(d) On each Auction Date:

(i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date will instruct its Participant as provided in (b)(ii) or (b)(iii) above, as the case may be;

(ii) each Seller's Broker-Dealer that is not a Participant of the Depository will instruct its Participant to deliver such Auction Rate Securities through the Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to (a)(v) above against payment therefor; and

(iii) each Buyer's Broker-Dealer that is not an Participant in the Depository will instruct its Participant to pay through the Depository to Seller's Broker-Dealer (or its Participant) identified following such Auction pursuant to (a)(vi) above the amount necessary to purchase the Auction Rate Securities to be purchased pursuant to (b)(ii) above against receipt of such Auction Rate Securities.

(e) On the Business Day following each Auction Date;

(i) each Participant for a Bidder in the Auction on such Auction Date referred to in (d)(i) above will instruct the Depository to execute the transactions described under (b)(ii) or (b)(iii) above for such Auction, and the Depository will execute such transactions;

(ii) each Seller's Broker-Dealer or its Participant will instruct the Depository to execute the transactions described in (d) (ii) above for such Auction, and the Depository will execute such transactions; and

(iii) each Buyer's Broker-Dealer or its Participant will instruct the Depository to execute the transactions described in (d)(iii) above for such Auction, and the Depository will execute such transactions.

(f) If an Existing Holder selling Auction Rate Securities in an Auction fails to deliver such Auction Rate Securities (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Auction Rate Securities that is less than the principal amount of Auction Rate Securities that otherwise was to be purchased by such Potential Holder. In such event, the principal amount of Auction Rate Securities to be so delivered will be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of Auction Rate Securities will constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of Auction Rate Securities which will represent any departure from the results of an Auction, as determined by the Auction Agent, will be of no effect unless and until the Auction Agent will have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Participant to take delivery of or deliver, as the case may be, the principal amount of the Auction Rate Securities or to pay for the Auction Rate Securities purchased or sold pursuant to an Auction or otherwise.

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\$113,000,000
maximum principal amount
EDUCATION SERVICES FOUNDATION
Jackson, Mississippi

Student Loan Asset-Backed Notes, Series 1996

APPENDIX G

EDUCATION SERVICES FOUNDATION FINANCIAL STATEMENTS
AS OF DECEMBER 31, 1997
AND FOR THE YEAR THEN ENDED
AND AS OF MAY 31, 1998 AND FOR
THE FIVE-MONTH PERIOD THEN ENDED

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EDUCATION SERVICES FOUNDATION

Financial Statements and Report of
Independent Certified Public Accountants

December 31, 1997 and 1996

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HADDOX REID BURKES & CALHOUN PLLC
Certified Public Accountants

EMMITTE J. HADDOX
R. MILLER REID
JIMMY E. BURKES
PAUL W. CALHOUN
M. GREGORY KING
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Report of Independent Certified Public Accountants

To the Directors of
Education Services Foundation

We have audited the accompanying statements of financial position of Education Services Foundation as of December 31, 1997 and 1996, and the related statements of activities and changes in unrestricted net assets and cash flows for years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Education Services Foundation as of December 31, 1997 and 1996 and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles.

Haddox Reid Burkess & Calhoun PLLC

March 19, 1998

EDUCATION SERVICES FOUNDATION
Statements of Financial Position

	December 31, <u>1997</u>	December 31, <u>1996</u>
<u>ASSETS</u>		
Cash and cash equivalents - Notes A and B	\$ 4,318,839	3,744,039
Student loans receivable - Notes A and C	65,317,440	25,492,104
Interest and special allowance receivable - Note A	1,405,414	538,070
Receivable - related party - Note D	198,903	227,570
Deferred charges, net of accumulated amortization of \$159,659 in 1997 and \$84,343 in 1996 - Note A	731,532	467,854
Other assets	<u>218,566</u>	<u>72,788</u>
Total assets	\$ <u>72,190,694</u>	<u>30,542,425</u>
<u>LIABILITIES AND UNRESTRICTED NET ASSETS</u>		
Liabilities:		
Accounts payable and accrued expenses	\$ 474,860	40,477
Payable - related party - Note D	385,817	544,402
Accrued interest payable	122,432	43,790
Notes payable - Note E	<u>71,300,000</u>	<u>30,130,000</u>
Total liabilities	<u>72,283,109</u>	<u>30,758,669</u>
Unrestricted net assets:		
Note funds - Note E	(179,901)	(77,436)
General fund	<u>87,486</u>	<u>(138,808)</u>
Total unrestricted net assets	<u>(92,415)</u>	<u>(216,244)</u>
Total liabilities and unrestricted net assets	\$ <u>72,190,694</u>	<u>30,542,425</u>

The accompanying notes are an integral part of these statements.

EDUCATION SERVICES FOUNDATION

Statements of Activities and Changes in Unrestricted Net Assets

	Year Ended December 31, <u>1997</u>	Year Ended December 31, <u>1996</u>
Revenues:		
Interest on student loans	\$ 2,158,214	150,989
Interest subsidy	835,238	118,830
Special allowance	39,584	1,738
Late fees	<u>2,607</u>	<u>19</u>
	3,035,643	271,576
Program services	3,504,250	92,552
Interest on investments	<u>509,763</u>	<u>80,219</u>
Total unrestricted revenues	<u>7,049,656</u>	<u>444,347</u>
Expenses:		
Interest	3,003,560	310,536
Program services	3,149,760	104,892
General and administrative	222,243	83,666
Loan servicing	239,666	72,772
Amortization	103,754	61,056
Note fees	<u>206,844</u>	<u>25,444</u>
Total expenses	<u>6,925,827</u>	<u>658,366</u>
Increase (decrease) in unrestricted net assets	123,829	(214,019)
Unrestricted net assets, beginning of period	<u>(216,244)</u>	<u>(2,225)</u>
Unrestricted net assets, end of period	\$ <u>(92,415)</u>	<u>(216,244)</u>

The accompanying notes are an integral part of these statements.

EDUCATION SERVICES FOUNDATION

Statements of Cash Flows

	Year Ended December 31, <u>1997</u>	Year Ended December 31, <u>1996</u>
Receipts (disbursements) in cash and cash equivalents:		
Cash flows from operating activities:		
Interest on student loans	\$ 1,140,105	49,326
Interest subsidy	650,927	4,979
Special allowance	25,105	160
Late fees	2,607	19
Program services	3,238,346	-
Interest on investments	518,085	56,519
Interest on notes	(2,913,252)	(266,747)
Administration and loan servicing	(3,149,760)	(253,773)
Note fees	<u>(226,844)</u>	<u>(66,485)</u>
Net cash used by operating activities	<u>(714,681)</u>	<u>(476,002)</u>
Cash flows from investing activities:		
Collection of student loan principal	4,271,006	213,031
Purchases of student loan principal	(40,840,163)	(24,570,120)
Purchases of student loan accrued interest	(1,644,690)	(732,594)
Loan premiums and transfer fees	(1,266,442)	(698,634)
School advance	-	7,620
Additions to equipment	(30,852)	(160)
Organizational costs	<u>(49,587)</u>	<u>(28,815)</u>
Net cash used by investing activities	<u>(39,560,728)</u>	<u>(25,809,672)</u>
Cash flows from financing activities:		
Proceeds from notes	41,170,000	30,130,000
Payments for costs of issuance	(370,745)	(332,797)
Advances from related party	<u>50,954</u>	<u>227,572</u>
Net cash provided by financing activities	<u>40,850,209</u>	<u>30,024,775</u>
Net increase in cash and cash equivalents	574,800	3,739,101
Cash and cash equivalents:		
Beginning of period	<u>3,744,039</u>	<u>4,938</u>
End of period	\$ <u>4,318,839</u>	<u>3,744,039</u>

EDUCATION SERVICES FOUNDATION

Statements of Cash Flows - Continued:

	Year Ended December 31, <u>1997</u>	Year Ended December 31, <u>1996</u>
Reconciliation of increase (decrease) in unrestricted net assets to net cash used by operating activities:		
Increase (decrease) in unrestricted net assets	\$ <u>123,828</u>	<u>(214,019)</u>
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash used by operating activities:		
Amortization and depreciation	375,861	85,983
Capitalized interest on student loans	(588,253)	-
Provision for loan losses	53,906	24,835
Decrease in deposits held for banks	-	10,067,616
Increase in interest and special allowance receivable	(1,194,036)	(319,400)
(Increase) decrease in receivable - related party	28,667	(92,552)
Increase in other assets	(34,204)	(45,116)
Decrease in deposits held for banks	-	(10,067,616)
Increase in accounts payable	440,907	40,477
Increase in accrued interest payable	<u>78,643</u>	<u>43,790</u>
Total adjustments	<u>(838,509)</u>	<u>(261,983)</u>
Net cash used by operating activities	\$ <u>(714,681)</u>	<u>(476,002)</u>

The accompanying notes are an integral part of these statements.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements

December 31, 1997 and 1996

Note A - Organization and Significant Accounting Policies

Organization

Education Services Foundation (the "Foundation") is a private nonprofit corporation organized on March 24, 1995, under the laws of the State of Mississippi for the purpose of engaging in a variety of activities intended to increase the level of appropriate quality education in the State of Mississippi and elsewhere.

Trustee

Trustmark National Bank, as Trustee, performs duties involving the acquisition of student loans, the investment and disbursement of monies as directed by the Foundation, and the servicing of debt obligations issued by the Foundation.

Income Taxes

The Foundation has received an Internal Revenue Service determination letter to the effect that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") and that the Foundation is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization of the type described in Section 509(a)(2) of the Code.

Cash and Cash Equivalents

The Foundation considers all checking accounts, money market accounts and investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Provision for Losses on Loans and Uncollected Interest

An evaluation of the loan portfolio and applicable guarantees with Federal reinsurance or direct Federal insurance is made to determine the necessity for a provision for loan losses or uncollected interest.

Deferred Charges

Legal and accounting fees and other expenses associated with the Foundation's application to the Internal Revenue Service to be considered a tax-exempt organization are being amortized on a straight line basis over sixty months. Legal, accounting and consulting costs related to execution of an asset purchase agreement and management contract are being amortized on a straight line basis over sixty-eight months. The costs of issuing notes, which are composed of legal costs and other related financing costs, are capitalized and amortized over the expected life of the related debt issue on a weighted average basis.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements
December 31, 1997 and 1996

Note A - Organization and Significant Accounting Policies - continued:

Loan Premiums, Transfer Fees and Origination Fees

Loan premiums, transfer fees and origination fees are capitalized and amortized over ten years to twenty years using the interest method.

Interest Income and Special Allowances

Interest is accrued on investments and on student loans. Quarterly special allowance payments from the United States Department of Education are also accrued.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - Cash and Cash Equivalents

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. The Foundation places its cash investments with high quality financial institutions. At times deposits with banks may be in excess of the FDIC insurance limit. The Foundation routinely assesses the financial strength of the institutions and, as a consequence, believes that its credit risk exposure is limited. At December 31, 1997 and 1996 the Foundation had cash and cash equivalents consisting of:

	December 31, 1997	December 31, 1996
Trustmark National Bank	\$ 9,280	10,375
Bank of Mississippi	413,472	1,027
Short-Term Investments Co.		
AIM Treasury Portfolio	<u>3,896,087</u>	<u>3,732,637</u>
	<u>\$ 4,318,839</u>	<u>3,744,039</u>

The majority of cash and cash equivalents are restricted for the acquisition of student loans, repayment of debt obligations and to satisfy certain reserve requirements specified by the various debt agreements.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements December 31, 1997 and 1996

Note C - Student Loans

Student loans purchased through December 31, 1997 include Stafford Student Loans (formerly Guaranteed Student Loans) made to students, PLUS Loans made to parents of dependent undergraduates, SLS Loans made to independent students, and Federal Consolidation Loans. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over a period of up to ten years for Stafford, PLUS and SLS Loans and up to thirty years for Federal Consolidation Loans. The student loans are pledged to the repayment of notes outstanding. Interest rates for student loans range from 7.00% to 9.13%. Concentration of credit risk with respect to student loans are limited due to large number of borrowers and the guarantee described below.

The United States Department of Education (DOE) pays the Foundation an interest subsidy on Stafford Student Loans while the student is in school, the loan is in the grace period, or loan repayment is deferred. A special allowance is paid to the Foundation by DOE at the end of each quarter, consisting of additional interest on all outstanding Stafford Student Loans. The allowance is related to the average of 91-day Treasury Bill rates during each quarter.

Student loans purchased by the Foundation, as well as accrued interest thereon, are guaranteed by the State Guarantor. The State Guarantor guarantees 98% (100% for loans disbursed prior to October 1, 1993) of principal and accrued interest.

Loans guaranteed by the State Guarantor are reinsured by DOE. The DOE reimbursement rate to the State Guarantor is 98% (100% for loans disbursed prior to October 1, 1993), provided the State Guarantor's reinsurance claims rate does not exceed 5% within a given Federal fiscal year. The DOE reimbursement rate to the State Guarantor is 88% (90% for loans disbursed prior to October 1, 1993) during the period that the State Guarantor's reinsurance claims rate exceeds 5% but is less than or equal to 9%, and the reimbursement rate is 78% (80% for loans disbursed prior to October 1, 1993) for the remainder of the fiscal year during which the reinsurance claims rate exceeds 9%. The State Guarantor is United Student Aid Funds, Inc.

At December 31, 1997 and 1996, the Foundation had student loans consisting of:

	December 31, 1997	December 31, 1996
Student loans receivable	\$ 63,626,471	24,835,674
Unamortized premiums, transfer fees and origination fees	<u>1,754,592</u>	<u>681,265</u>
	65,381,063	25,516,939
Provision for loan losses and uncollected interest	<u>(63,623)</u>	<u>(24,835)</u>
	\$ <u>65,317,440</u>	<u>25,492,104</u>

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements December 31, 1997 and 1996

Note D - Related Party Transactions

On May 1, 1997, the Foundation entered into a management contract with Mississippi Higher Education Assistance Corporation (MHEAC) and acquired all of the furniture, equipment and computers of MHEAC for \$160,932. The contract states that the Foundation will manage MHEAC's daily operations through December 31, 2002. Prior to May 1, 1997, the Foundation operated MHEAC's OneLink, Hotline and Website programs. Fees charged to MHEAC for these services for the years ended December 31, 1997 and 1996 were \$3,504,250 and \$92,552, respectively. This revenue is reported as program services in the statement of activities.

At December 31, 1997 and 1996, receivables from MHEAC were \$198,903 and \$227,570, respectively. Payables to MHEAC for assets purchased, cash advances and for Foundation expenses paid by MHEAC were \$385,817 and \$544,402 at December 31, 1997 and 1996, respectively. Commencing April 30, 1998, and each year thereafter through 2002, the Foundation is required to repay \$77,163 principal plus interest computed at 6.85%.

All members of the Foundation's board of directors also serve on MHEAC's board of directors.

Note E - Notes Payable

Notes payable at December 31, 1997 and 1996 consisted of:

	<u>Maturity</u>	<u>December 31,</u> <u>1997</u>	<u>December 31,</u> <u>1996</u>
1996-D Note	08/11/1997	\$ -	130,000
1996 Notes	10/01/2026	60,000,000	30,000,000
1997-A Note	08/07/2000	<u>11,300,000</u>	<u>-</u>
		\$ <u>71,300,000</u>	<u>30,130,000</u>

The 1996-D Note consisted of draws made by the Foundation under a \$15,000,000 taxable line of credit which the Foundation was a joint obligor with MHEAC. The Note bore interest based on LIBOR or Treasury rates for periods of approximately one, two or three months. The line of credit expired on August 11, 1997, at which time the Note was paid. The Note was a limited obligation of the Foundation and MHEAC and was collateralized in accordance with a Trust Indenture by an assignment and pledge to the trustee of all the Foundation's rights, title and interest in and to certain student loan notes, and by a pledge of certain funds and reserves, including restricted fund balances established under the indenture.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements
December 31, 1997 and 1996

Note E - Notes Payable - continued:

The Series 1996 Notes bear interest at auction rates determined by the Auction Agent, in accordance with auction procedures set forth in the Trust Indenture pursuant to which the notes were issued, for auction periods of generally 28 days. The Series 1996 Notes are a limited obligation of the Foundation and are collateralized in accordance with the Trust Indenture by an assignment and pledge to the trustee of all the Foundation's rights, title and interest in and to certain student loan notes, and by a pledge of certain funds and reserves, including restricted fund balances established under the indenture.

The 1997-A Note consists of draws made by the Foundation under a \$50,000,000 taxable line of credit. The Note bears interest based on LIBOR rates for periods of approximately one, two or three months. The line of credit expires on August 7, 2000, at which time the Note is due and payable. The Note is a limited obligation of the Foundation and is collateralized in accordance with a Trust Indenture by an assignment and pledge to the trustee of all the Foundation's rights, title and interest in and to certain student loan notes, and by a pledge of certain funds and reserves, including restricted fund balances established under the indenture.

Note F - Supplemental Information on Noncash Operating, Investing and Financing Activities

Prior to May 1, 1997, MHEAC directly paid all operating expenses, organizational start-up costs, equipment and computer software costs incurred by the Foundation. For cash flow purposes, these costs are treated as being paid by the Foundation, and as an advance from the related party. On May 1, 1997, the Foundation purchased all the furniture, equipment and computers of MHEAC in exchange for a \$160,932 note payable.

The Foundation has capitalized certain amounts of accrued interest income on student loans and included the amounts in student loans receivable. For the year ended December 31, 1997, capitalized interest amounted to approximately \$588,000.

Note G - Disclosures About Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements December 31, 1997 and 1996

Note G - Disclosures About Fair Values of Financial Instruments - Continued:

Cash and Cash Equivalents and Notes Payable

The carrying amount approximates fair value because of the short maturity of those instruments.

Student Loans Receivable

The actual pricing of a student loan portfolio is generally negotiated on a transaction by transaction basis and is dependent upon various factors including the loan status and average balances of the student loan portfolio. Management believes the fair value of student loans receivable approximates its carrying amount.

The carrying amounts and estimated fair values of the Foundation's financial instruments are as follows:

	<u>December 31, 1997</u>		<u>December 31, 1996</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Cash and Cash Equivalents	\$ 4,318,839	4,318,839	3,744,039	3,744,039
Student Loans Receivable	65,317,440	65,317,440	25,492,104	25,492,104
Notes Payable	(71,300,000)	(71,300,000)	(30,130,000)	(30,130,000)

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EDUCATION SERVICES FOUNDATION

Unaudited Financial Statements

as of May 31, 1998

EDUCATION SERVICES FOUNDATION

Statement of Financial Position

May 31, 1998

(Unaudited)

ASSETS

Cash and cash equivalents - Notes A and B	\$ 5,237,137
Student loans receivable - Notes A and C	77,597,049
Interest and special allowance receivable - Note A	2,290,183
Receivable - related party - Note D	244,020
Deferred charges, net of accumulated amortization of \$191,193 - Note A	699,998
Other assets	<u>230,168</u>
Total assets	<u>\$ 86,298,555</u>

LIABILITIES AND UNRESTRICTED NET ASSETS

Liabilities:	
Accounts payable and accrued expenses	\$ 443,714
Payable - related party - Note D	308,653
Accrued interest payable	259,707
Notes payable - Note E	<u>85,200,000</u>
Total liabilities	<u>86,212,074</u>
Unrestricted net assets:	
Note funds - Note E	(121,829)
General fund	<u>208,310</u>
Total unrestricted net assets	<u>86,481</u>
Total liabilities and unrestricted net assets	<u>\$ 86,298,555</u>

The accompanying notes are an integral part of this statement.

EDUCATION SERVICES FOUNDATION

Statement of Activities and Changes in Unrestricted Net Assets For the Five Months Ended May 31, 1998 (Unaudited)

Revenues:	
Interest on student loans	\$ 1,651,734
Interest subsidy	478,374
Special allowance	15,880
Late fees	2,063
	<hr/>
	2,148,051
Program services	2,223,828
Interest on investments	95,532
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Total unrestricted revenues	4,467,411
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Expenses:	
Interest	1,880,093
Program services	2,060,522
General and administrative	102,327
Loan servicing	119,494
Amortization	31,534
Note fees	94,545
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Total expenses	4,288,515
	<hr/>
Increase in unrestricted net assets	178,896
Unrestricted net assets, beginning of period	(92,415)
	<hr/>
Unrestricted net assets, end of period	\$ 86,481
	<hr/>

The accompanying notes are an integral part of this statement.

EDUCATION SERVICES FOUNDATION

Statement of Cash Flows For the Five Months Ended May 31, 1998 (Unaudited)

Receipts (disbursements) in cash and cash equivalents:

Cash flows from operating activities:

Interest on student loans	\$ 921,834
Interest subsidy	298,161
Special allowance	16,503
Late fees	2,063
Program services	2,178,711
Interest on investments	90,664
Interest on notes	(1,753,320)
Administration and loan servicing	(2,295,542)
Note fees	(52,736)

Net cash used by operating activities	<u>(593,662)</u>
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Cash flows from investing activities:

Collection of student loan principal	3,061,542
Purchases of student loan principal	(14,315,508)
Purchases of student loan accrued interest	(535,338)
Loan premiums and transfer fees	(460,714)
Additions to equipment	(35,859)

Net cash used by investing activities	<u>(12,285,877)</u>
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Cash flows from financing activities:

Proceeds from notes	13,900,000
Payments for costs of issuance	(25,000)
Payment to related party	(77,163)

Net cash provided by financing activities	<u>13,797,837</u>
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Net increase in cash and cash equivalents	918,298
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Cash and cash equivalents:

Beginning of period	<u>4,318,839</u>
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End of period	<u>\$ 5,237,137</u>
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EDUCATION SERVICES FOUNDATION

Statement of Cash Flows - Continued
For the Five Months Ended May 31, 1998
(Unaudited)

Reconciliation of increase in unrestricted net
assets to net cash used by operating activities:

Increase in unrestricted net assets	\$ 178,896
Adjustments to reconcile increase in unrestricted net assets to net cash used by operating activities:	
Amortization and depreciation	210,643
Capitalized interest on student loans	(202,817)
Provision for loan losses	22,725
Increase in interest and special allowance receivable	(884,770)
(Increase) decrease in receivable - related party	(45,117)
Increase in other assets	(4,351)
Increase (decrease) in accounts payable	(6,145)
Increase in accrued interest payable	137,274
Total adjustments	(772,558)
Net cash used by operating activities	\$ (593,662)

The accompanying notes are an integral part of this statement.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements

May 31, 1998

(Unaudited)

Note A - Organization and Significant Accounting Policies

Organization

Education Services Foundation (the "Foundation") is a private nonprofit corporation organized on March 24, 1995, under the laws of the State of Mississippi for the purpose of engaging in a variety of activities intended to increase the level of appropriate quality education in the State of Mississippi and elsewhere.

Trustee

Trustmark National Bank, as Trustee, performs duties involving the acquisition of student loans, the investment and disbursement of monies as directed by the Foundation, and the servicing of debt obligations issued by the Foundation.

Income Taxes

The Foundation has received an Internal Revenue Service determination letter to the effect that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code") and that the Foundation is not a private foundation within the meaning of Section 509(a) of the Code because it is an organization of the type described in Section 509(a)(2) of the Code.

Cash and Cash Equivalents

The Foundation considers all checking accounts, money market accounts and investments with an original maturity of three months or less when purchased to be cash and cash equivalents.

Provision for Losses on Loans and Uncollected Interest

An evaluation of the loan portfolio and applicable guarantees with Federal reinsurance or direct Federal insurance is made to determine the necessity for a provision for loan losses or uncollected interest.

Deferred Charges

Legal and accounting fees and other expenses associated with the Foundation's application to the Internal Revenue Service to be considered a tax-exempt organization are being amortized on a straight line basis over sixty months. Legal, accounting and consulting costs related to execution of an asset purchase agreement and management contract are being amortized on a straight line basis over sixty-eight months. The costs of issuing notes, which are composed of legal costs and other related financing costs, are capitalized and amortized over the expected life of the related debt issue on a weighted average basis.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements May 31, 1998 (Unaudited)

Note A - continued:

Loan Premiums, Transfer Fees and Origination Fees

Loan premiums, transfer fees and origination fees are capitalized and amortized over ten years to twenty years using the interest method.

Interest Income and Special Allowances

Interest is accrued on investments and on student loans. Quarterly special allowance payments from the United States Department of Education are also accrued.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note B - Cash and Cash Equivalents

Financial instruments which potentially subject the Foundation to concentrations of credit risk consist principally of cash and cash equivalents. The Foundation places its cash investments with high quality financial institutions. At times deposits with banks may be in excess of the FDIC insurance limit. The Foundation routinely assesses the financial strength of the institutions and, as a consequence, believes that its credit risk exposure is limited. At May 31, 1998 the Foundation had cash and cash equivalents consisting of:

Trustmark National Bank	\$ 9,194
Bank of Mississippi	346,231
Short-Term Investments Co.	
AIM Treasury Portfolio	<u>4,881,712</u>
	<u>\$ 5,237,137</u>

The majority of cash and cash equivalents are restricted for the acquisition of student loans, repayment of debt obligations and to satisfy certain reserve requirements specified by the various debt agreements.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements May 31, 1998 (Unaudited)

Note C - Student Loans

Student loans purchased through May 31, 1998 include Stafford Student Loans (formerly Guaranteed Student Loans) made to students, PLUS Loans made to parents of dependent undergraduates, SLS Loans made to independent students, and Federal Consolidation Loans. The terms of the loans, which vary on an individual basis, generally provide for repayment in monthly installments of principal and interest over a period of up to ten years for Stafford, PLUS and SLS Loans and up to thirty years for Federal Consolidation Loans. The student loans are pledged to the repayment of notes outstanding. Interest rates for student loans range from 7.00% to 9.13%. Concentration of credit risk with respect to student loans are limited due to large number of borrowers and the guarantee described below.

The United States Department of Education (DOE) pays the Foundation an interest subsidy on Stafford Student Loans while the student is in school, the loan is in the grace period, or loan repayment is deferred. A special allowance is paid to the Foundation by DOE at the end of each quarter, consisting of additional interest on all outstanding Stafford Student Loans. The allowance is related to the average of 91-day Treasury Bill rates during each quarter.

Student loans purchased by the Foundation, as well as accrued interest thereon, are guaranteed by the State Guarantor. The State Guarantor guarantees 98% (100% for loans disbursed prior to October 1, 1993) of principal and accrued interest.

Loans guaranteed by the State Guarantor are reinsured by DOE. The DOE reimbursement rate to the State Guarantor is 98% (100% for loans disbursed prior to October 1, 1993), provided the State Guarantor's reinsurance claims rate does not exceed 5% within a given Federal fiscal year. The DOE reimbursement rate to the State Guarantor is 88% (90% for loans disbursed prior to October 1, 1993) during the period that the State Guarantor's reinsurance claims rate exceeds 5% but is less than or equal to 9%, and the reimbursement rate is 78% (80% for loans disbursed prior to October 1, 1993) for the remainder of the fiscal year during which the reinsurance claims rate exceeds 9%. The State Guarantor is United Student Aid Funds, Inc.

At May 31, 1998 the Foundation had student loans consisting of:

Student loans receivable	\$ 75,607,829
Unamortized premiums, transfer fees and origination fees	<u>2,064,805</u>
	\$ 77,672,634
Provision for loan losses and uncollected interest	<u>(75,585)</u>
	<u>\$ 77,597,049</u>

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements May 31, 1998 (Unaudited)

Note D - Related Party Transactions

On May 1, 1997 the Foundation entered into a management contract with Mississippi Higher Education Assistance Corporation (MHEAC). The contract states that the Foundation will manage MHEAC's daily operations through December 31, 2002. Fees charged to MHEAC for these services for the five months ended May 31, 1998 were \$2,223,828. This revenue is reported as program services in the statement of activities.

At May 31, 1998 receivables from MHEAC were \$244,020. At May 31, 1998 payables to MHEAC for assets purchased, cash advances and for Foundation expenses paid by MHEAC were \$308,653. Commencing April 30, 1998, and each year thereafter through 2002, the Foundation is required to repay \$77,163 principal plus interest computed at 6.85%.

All members of the Foundation's board of directors also serve on MHEAC's board of directors.

Note E - Notes Payable

Notes payable at May 31, 1998 consisted of:

1996 Notes maturing 10/01/2026	60,000,000
1997-A Note maturing 08/07/2000	25,200,000
	<u>\$ 85,200,000</u>

The Series 1996 Notes bear interest at auction rates determined by the Auction Agent, in accordance with auction procedures set forth in the Trust Indenture pursuant to which the notes were issued, for auction periods of generally 28 days. The Series 1996 Notes are a limited obligation of the Foundation and are collateralized in accordance with the Trust Indenture by an assignment and pledge to the trustee of all the Foundation's rights, title and interest in and to certain student loan notes, and by a pledge of certain funds and reserves, including restricted fund balances established under the indenture.

The 1997-A Note consists of draws made by the Foundation under a \$50,000,000 taxable line of credit. The Note bears interest based on LIBOR rates for periods of approximately one, two, or three months. The line of credit expires on August 7, 2000, at which time the Note is due and payable. The Note is a limited obligation of the Foundation and is collateralized in accordance with a Trust Indenture by an assignment and pledge to the trustee of all the Foundation's rights, title and interest in and to certain student loan notes, and by a pledge of certain funds and reserves, including restricted fund balances established under the indenture.

EDUCATION SERVICES FOUNDATION

Notes to Financial Statements

May 31, 1998

(Unaudited)

Note F - Supplemental information on Noncash Operating, Investing and Financing Activities

The Foundation has capitalized certain amounts of accrued interest income on student loans and included the amounts in student loans receivable. For the five months ended May 31, 1998 capitalized interest amounted to approximately \$203,000.

Note G - Disclosures About Fair Values of Financial Instruments

The following disclosure of the estimated fair value of financial instruments is made in accordance with the requirements of Financial Accounting Standards Board (FASB) Statement No. 107, *Disclosures about Fair Value of Financial Instruments*. The following methods and assumptions were used by the Foundation in estimating its fair value disclosures for financial instruments:

Cash and Cash Equivalents and Notes Payable

The carrying amount approximates fair value because of the short maturity of those instruments.

Student Loans Receivable

The actual pricing of a student loan portfolio is generally negotiated on a transaction by transaction basis and is dependent upon various factors including the loan status and average balances of the student loan portfolio. Management believes the fair value of student loans receivable approximates its carrying amount.

The carrying amounts and estimated fair values of the Foundation's financial instruments at May 31, 1998 are as follows:

	Carrying Amount	Fair Value
Cash and Cash Equivalents	\$ 5,237,137	\$ 5,237,137
Student Loans Receivable	77,597,049	77,597,049
Notes Payable	(85,200,000)	(85,200,000)

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No dealer, broker, salesman or other person has been authorized by the Foundation or the Underwriter to give any information or to make any representations, other than those contained in this Offering Memorandum, and given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of the Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information set forth herein has been obtained from the Foundation, the Servicers, the Guarantors and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriter or its counsel. The Underwriter and its counsel have made no independent verification of the information contained herein relating to the Foundation, the Servicers or the Guarantors. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Offering Memorandum nor any sale made hereunder will, under any circumstances, create any implication that there has been no change in the affairs of the Foundation, the Servicers or the Guarantors since the date of this Offering Memorandum. This Offering Memorandum does not constitute a contract between the Foundation, or the Underwriter, and any one or more of the purchasers or Holders of the Notes.

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

Upon issuance, the Notes are not registered under the Securities Act of 1933 and are not listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any other federal, state or other governmental entity or agency will have passed on the accuracy of this Offering memorandum or approved the Notes for sale. The Indenture has not been not be qualified under the Trust Indenture Act of 1939.

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\$113,000,000
MAXIMUM PRINCIPAL AMOUNT

EDUCATION SERVICES FOUNDATION

Student Loan
Asset-Backed Notes, Series 1996

OFFERING MEMORANDUM

SALOMON SMITH BARNEY