

**MHESAC RESPONSE TO  
INFORMATION REQUEST FROM SENATOR  
BAUCUS AND SENATOR TESTER  
May 2008**

**SUBMITTED BY  
MONTANA HIGHER EDUCATION STUDENT ASSISTANCE CORPORATION  
May 15, 2008**

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## REFERENCED TERMINOLOGY AND ACRONYMS

**Federal Family Education Loan Program (FFELP):** A public-private partnership established by the United States Congress through the Higher Education Act of 1965 (Higher Education Act). The FFELP was created to allow private capital to be used for student loans through a guarantee provided by the federal government to “insure” the loans, and establish reasonable returns for lender participants through special allowance payments (SAP). FFELP currently provides for 84% of the annual volume of federal student loans in the United States and 100% in Montana.

**Montana Higher Education Student Assistance Corporation (MHESAC):** MHESAC is a private Montana nonprofit 501(c)(3) corporation organized in July, 1980. MHESAC is organized to comply with Section 150(d) of the Internal Revenue Code. Thus, its Articles of Incorporation provide, among other things, that MHESAC is organized solely for the purpose of lending and providing funds for the acquisition of student loan notes originated under the Higher Education Act, and to devote any income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or it must be paid to the United States government. MHESAC is governed by a seven voting and one ex-officio non-voting member Board of Directors.

**Student Assistance Foundation of Montana (SAF):** SAF is a private Montana nonprofit 501(c)(3) corporation organized in July, 1999 to provide support services to MHESAC and other FFELP industry participants, as well as to provide education and access oriented services to Montana citizens. SAF is governed by a nine voting and one ex-officio non-voting member Board of Directors.

**Office of the Commissioner of Higher Education (OCHE):** The OCHE reports to the Board of Regents and, in concert with the Board of Regents, provides direction and oversight for the Montana University System.

**Montana Guaranteed Student Loan Program (MGSLP):** Title 20, Chapter 26, Part 11 of the Montana Code Annotated (the GSLP Act) provides for the establishment of the MGSLP and the administration and operation thereof by the Board of Regents in accordance with applicable federal law. It is the role of MGSLP to act as a guarantor for eligible FFELP loans. As such, it is tasked by the Higher Education Act to: (1) act as an agent of the federal government in providing the federal guarantee for FFELP loans and ensure that program participants comply with all federal regulations; (2) approve lenders as eligible lenders under the FFELP; and (3) incur and discharge debts, including defaulted loans. MGSLP does not rely on the State of Montana for any of its revenues or expenses and none of the loans guaranteed by MGSLP are the obligation of the State of Montana.

**Guarantee Agencies:** Guarantee Agencies are tasked by the Higher Education Act to act as an agent of the federal government in providing the federal guarantee for FFELP loans and ensure that program participants comply with all federal regulations.

**Volume Cap:** Volume cap is a limit set by the federal government on the amount of “private activity” tax-exempt bonds that can be issued in each state. Volume cap is NOT tax dollars or the promise of tax dollars, and can only be used by issuers of debt that qualifies as “private activity” bonds the interest on which is tax-exempt under the Internal Revenue Code. MHESAC’s tax-exempt student loan revenue bonds qualify as such.

**Bond Indenture:** The Indenture of Trust, entered into between MHESAC and a trustee, pursuant to which MHESAC has issued all of its currently outstanding bonds to finance the purchase and origination of FFELP Loans.

**Montana Student Loan Funding LLC (MSLF):** MSLF is a Delaware limited liability company and wholly owned subsidiary of SAF. MSLF is a disregarded entity for federal income tax purposes. MSLF was created to provide a vehicle for the temporary financing of non-Montana FFELP loans pending their sale to MHESAC. MSLF has entered into a warehousing indenture and other related agreements pursuant to which it borrows moneys to purchase or originate FFELP loans. MSLF has no substantial assets other than those pledged under its warehousing indenture to secure repayment of its borrowing. MSLF has no full-time employees. Certain responsibilities of MSLF are performed by SAF pursuant to an agreement between SAF and MSLF.

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*The Montana Higher Education Student Assistance Corporation strongly supports access to post-secondary education for all Montanans who desire the pursuit of such. MHESAC also strongly supports the strong public-private partnership that has worked very well for 25 years to ensure Montanans access to federal student loans in order to pursue those desires. MHESAC believes the strength of that partnership has been a mutually shared desire to make sure Montana students have the opportunity to succeed.*

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## **BACKGROUND INFORMATION**

### **OVERVIEW OF MHESAC**

MHESAC is a private Montana nonprofit 501(c)(3) corporation organized in July, 1980. MHESAC is organized to comply with Section 150(d) of the Internal Revenue Code. Thus, its Articles of Incorporation provide, among other things, that MHESAC is organized solely for the purpose of lending and providing funds for the acquisition of student loan notes originated under the Higher Education Act, and to devote any income (after payment of expenses, debt service, and the creation of reserves for the same) to the purchase of additional student loan notes or the United States government. MHESAC is governed by a seven voting and one ex-officio non-voting member Board of Directors. Governor Judge designated MHESAC as an eligible lender under the Higher Education Act in 1980. MHESAC has received a designation by Governor Schwinden in 1983 as the sole and exclusive nonprofit corporation in the State to provide a statewide student loan acquisition program in connection with the guaranteed student loan program provided for by the Higher Education Act (currently the FFELP) and former Section 103(e) (currently Section 150(d)) of the Internal Revenue Code.

Since MHESAC commenced operations in 1983, MHESAC has raised and provided over \$2.4 billion in low-cost capital for FFELP loans for Montanans and \$650 million in capital for FFELP loans for non-Montanans through various financing vehicles. MHESAC currently owns approximately \$1.4 billion outstanding principal amount of FFELP loans to more than 78,000 borrowers. MHESAC has delivered more than \$38.2 million, and has earned the funds for and has committed to deliver an additional \$11.6 million, in borrower benefits (in the form of principal reductions, interest rate reductions, fee payments on behalf of borrowers and loan forgiveness) to Montana students and families. MHESAC does not receive any funds or taxpayer dollars from the State of Montana. MHESAC finances its investment in FFELP loans through the issuance of non-recourse bonds that are payable solely from certain of MHESAC's assets (including FFELP loans financed with the proceeds of such bonds) pledged to the payment of such bonds. As such, MHESAC's bonds do not constitute an obligation payable from the General Fund Assets or other unpledged assets of MHESAC. Under no circumstances do MHESAC's bonds constitute a debt, a liability or a legal or moral obligation of the State of Montana or any agency or political subdivision thereof.

Additional information about MHESAC is available at [www.mhesac.org](http://www.mhesac.org) and on pages i, 2 and 43-47 of the enclosed MHESAC offering document, dated December 17, 2007.

#### **References**

MHESAC Articles of Incorporation  
MHESAC 2007 Annual Report  
MHESAC Offering Document, dated December 17, 2007

## **OVERVIEW OF THE MHESAC/SAF RELATIONSHIP**

MHESAC and SAF are two separate and distinct private nonprofit corporations.

MHESAC's mission is to provide capital to allow students to finance their pursuit of post-secondary education and to help lower the cost of such financing. MHESAC's sole business is the purchase and origination of FFELP loans, the capital for which is raised through the issuance of its bonds. MHESAC's core service area focus has been Montana citizens and residents. In an effort to gain enhanced cost efficiency and to generate additional monies for Montana borrower benefits, MHESAC has purchased FFELP loans made to non-Montanans from 2000-2006 (mostly through the warehousing facility provided by SAF through its subsidiary, MSLF).

SAF's mission is to provide all Montanans with the tools and knowledge to permit them to pursue their post-secondary education ambitions. SAF's business consists of: (1) providing management and administrative services to MHESAC; (2) servicing (processing payments, handling regulation compliance and providing personal customer service) of student loans for MHESAC and a number of other FFELP participants; (3) providing services in connection with the origination of student loans by MHESAC and other FFELP participants; (4) providing support services to the MGSFP; and (5) distributing public benefits to Montana citizens. During the existence of the Exceptional Performer Program, SAF was designated as an "Exceptional Performer" by the United States Department of Education for adherence by SAF to Higher Education Act regulations in its servicing of FFELP loans. SAF currently employs 195 Montana citizens, with an annual payroll of over \$9 million and Montana payroll tax, pension and health benefit contributions of approximately \$2.2 million. In addition, SAF has provided over \$13 million in public benefits in the State of Montana since it commenced operations in 2000 (in the form of access grants to students and education finance outreach services to Montana students and families)

As noted above, SAF (1) provides management and administrative services to MHESAC, (2) services MHESAC's FFELP loan portfolio, and (3) provides services in connection with the origination of FFELP loans by MHESAC. These relationships are defined under the terms of two types of agreements—a Management Agreement (relating to the management and administrative services provided by SAF) and a Servicing Agreement (providing for the servicing and origination of MHESAC's FFELP loans). Each entity has a separate Board of Directors (although a minority (three) of SAF's Board positions are reserved for members of the MHESAC Board of Directors.) MHESAC has no employees, and all of its day-to-day business activities are performed by SAF pursuant to the Management Agreement. The price for SAF's services was determined using IRS guidelines and information provided by an independent consultant and is reviewed and renewed every three years.

SAF came into existence as a result of a restructuring of MHESAC's business. The restructuring included the sale to SAF of essentially all of MHESAC's non-cash and non-FFELP loan related assets, as well as the hiring by SAF of substantially all of the

employees of MHESAC. This left MHESAC free to focus solely on the acquisition of FFELP loans and the financing thereof. This restructuring also resulted in a separate and distinct corporation in the form of SAF, which, in addition to providing management and administrative services and loan servicing to MHESAC as noted above, had the ability to (i) enter into servicing and origination agreements with other FFELP participants outside the State of Montana, thereby lowering the servicing costs payable by MHESAC (through increased efficiencies and economies of scale), and (ii) apply net revenues derived from its operations to making benefits available to Montana students and educational institutions in the forms of grants and education-related programs and assistance. MHESAC, as a 150(d) corporation, is precluded from participating in such activities. MHESAC's first and foremost public purpose has been, and remains, assuring that FFELP loans are available to Montana students to pursue post-secondary education. Since the restructuring, MHESAC and its Montana lending partners have increased the amount of FFELP loans annually provided to Montana student loan borrowers from approximately \$114 million (for fiscal year ending June 30, 2001) to approximately \$323 million (for recent fiscal year ending June 30, 2007).

Additionally, it was projected that the restructuring of MHESAC and the subsequent operations of SAF would generate \$61.7 million in other public benefits for Montana citizens. These other public benefits would be in the form of borrower benefits delivered by MHESAC and grants and education finance outreach services provided by SAF. Since the restructuring, as of March 31, 2008, MHESAC has delivered \$37.8 million in borrower benefits to Montanans, and SAF has delivered \$13.4 million in public benefits to Montanans, including \$6.1 million in grants to students. In addition to the combined total of \$51.2 million in public benefits already delivered by MHESAC and SAF, an additional \$11.6 million in borrower benefits will be granted to borrowers by MHESAC in the future under existing borrower benefit programs. Thus, to date, these organizations have delivered or committed to deliver \$62.8 million in public benefits to Montanans since the restructuring.

#### References

Excerpt from Kohne O'Neill Evaluation of MHESAC Strategic Alternatives  
(Revised), dated November 27, 1998

MHESAC Borrower Benefits Delivered Summary

SAF Public Benefit Programs Delivered Summary

**RESPONSES TO SPECIFIC INFORMATION REQUESTS**

**1. INFORMATION ON MHESAC'S ASSETS**

As of the date of MHESAC's latest audited financial statements (June 30, 2007), MHESAC's assets consisted of two types: General Fund Assets (which are available for general corporate use) and Restricted Assets (which are pledged under (i) the Bond Indenture and are restricted to use for repayment of the bonds and other purposes permitted under the Bond Indenture, and (ii) the Indenture pursuant to which certain variable funding notes were issued (the VFN Indenture) and are restricted to use for repayment of the notes and other purposes permitted under the VFN Indenture).

**GENERAL FUND**

**The following are MHESAC's General Fund Assets as of June 20, 2007.**

Cash and Investments (cash and government securities)	\$4,700,511
Accounts Receivable	8,000
Accrued Interest Receivable (income earned and receivable on student loans and investments)	27,483
Education Loans Receivable (FFELP loans)	384,442
Prepaid Costs (unamortized prepaid borrower and loan fees)	422,309
Bond Issuance Costs (unamortized bond issuance costs)	12,505,268
Real Estate Note Receivable (note from sale of building)	2,434,241
Other Assets (Borrower payments in transit from servicer)	1,110
Due from Restricted Fund	<u>4,743,231</u>
<b>TOTAL GENERAL FUND ASSETS</b>	<b><u>\$25,226,595</u></b>

**The following are MHESAC's General Fund Liabilities as of June 30, 2007:**

Accounts Payable	<u>\$2,525</u>
<b>TOTAL GENERAL FUND LIABILITIES</b>	<b><u>\$2,525</u></b>

**MHESAC's General Fund Balance as of June 30, 2007:**

<b>TOTAL GENERAL FUND BALANCE</b>	<b><u>\$25,224,070</u></b>
<b>TOTAL GF LIABILITIES AND FUND BALANCE</b>	<b><u>\$25,226,595</u></b>

**RESTRICTED FUND**

**The following are Assets pledged under the Bond and VFN Indentures as of June 30, 2007:**

Cash and Investments	\$395,465,729
(cash, guaranteed investment contracts, government securities)	
Accounts Receivable	46,821
Accrued Interest Receivable	29,223,916
(income earned and receivable on student loans and investments)	
Education Loans Receivable	1,390,999,360
(FFELP loans)	
Prepaid Costs	29,454,451
(unamortized prepaid borrower and loan fees)	
Swap Agreement Receivable	1,120
Other Assets	<u>1,325,414</u>
(Borrower payments in transit from servicer)	
<b>TOTAL RESTRICTED FUND ASSETS</b>	<b><u>\$1,846,516,811</u></b>

**The following are Liabilities under the Bond and VFN Indentures as of June 30, 2007:**

Accounts Payable and Accrued Expenses	\$1,598,544
(accrued bond expenses, i.e. broker-dealer fees)	
Accrued Interest Payable	4,922,328
(interest owing on bonds and notes)	
Due to General Fund	4,743,231
Swap Agreement Payable	56,134
Fair Market Value of Interest Rate Swaps	811,696
Arbitrage Rebate Liability	5,459,203
(accrued arbitrage liability on non-purpose investments)	
Excess Interest Liability	10,737,823
(accrued liability on purpose investments above retainable levels)	
Variable Funding Note	5,000,000
(warehousing line of credit, paid in full 8/1/07)	
Education Bonds and Notes Payable	<u>1,799,974,371</u>
<b>TOTAL RESTRICTED FUND LIABILITIES</b>	<b><u>\$1,833,303,330</u></b>

**MHESAC's Restricted Fund Balance as of June 30, 2007:**

<b>TOTAL RESTRICTED FUND BALANCE</b>	<b><u>\$13,213,481</u></b>
<b>TOTAL RESTRICTED FUND LIABILITIES AND FUND BALANCE</b>	<b><u>\$1,846,516,811</u></b>

## References

June 30, 2007 MHESAC Audited Financial Statements

## **2. DESCRIPTION OF CURRENT RISK MANAGEMENT PRACTICES**

MHESAC is a private corporation organized under the nonprofit corporation laws of the State of Montana and recognized by the IRS as an organization described under Section 501(c)(3) of the Internal Revenue Code. As such, MHESAC is not an agency or instrumentality of the State of Montana. Consequently, any obligations incurred by MHESAC (whether in the form of bonds, notes or other indebtedness) are the same as any other private corporation, and do not constitute a debt, a liability or a legal or moral obligation of the State of Montana or any agency or political subdivision thereof. This distinction has been acknowledged in a Montana Attorney General Opinion, a letter from Montana's Legislative Auditor, written advice provided to MHESAC by its counsel, the bond rating process and disclosure to purchasers and potential purchasers of MHESAC's bonds.

MHESAC's business risks primarily relate to (i) the financing of student loans, and (ii) the political risks associated with federal laws and regulations governing the nation's student loan programs and the need for State approval for usage of volume cap.

MHESAC manages the risk in its business through the following primary means.

- (1) MHESAC looks to obtain a sound matching of the funding nature of its assets to its liabilities. The yield to lenders on FFELP loans is variable in nature. As a result, MHESAC looks to finance these assets using variable rate financings.
- (2) MHESAC issues non-recourse debt. All of MHESAC's bonds issued to finance the acquisition of FFELP loans have been issued pursuant to the Bond Indenture. MHESAC discloses to investors that the bonds are limited obligations of MHESAC and are secured by and payable solely from the assets pledged under the Bond Indenture (which includes those FFELP loans financed with the proceeds of the bonds). MHESAC further discloses that it is the issuer of the bonds and that the bonds do not constitute a debt, a liability or a legal or moral obligation of the State of Montana or any agency or political subdivision thereof.
- (3) MHESAC issues only rated bonds—its senior bonds have all been rated “AAA” and its subordinate bonds have all been rated “A.” Bonds issued by MHESAC are rated by the rating agencies on the strength of the cash flows associated with the assets held in the financings and the quality of management and servicing provided to the loan portfolio. Rating agencies develop cashflow stresses that are

deliberately structured to establish that the cashflows will still allow bondholders to be paid under extremely adverse circumstances. These stresses are significantly more onerous and unlikely than any expected business case scenario.

- (4) MHESAC follows an extensive set of risk mitigation management and operating practices and sound financing strategies. These practices and strategies, together with the underlying credit quality of the assets securing MHESAC's bonds, have resulted in MHESAC obtaining the highest possible rating on its senior bonds from each of three major rating agencies.

The risk management practices and financing strategies utilized by MHESAC to ensure that the financial and management risks inherent in the operation of its student loan operations are minimized, include: the retention of top consultants; on-going education of Board members relative to industry issues and strategies; investing only in FFELP loans, which are guaranteed to at least 97% of unpaid principal and interest; financing structure and type diversification and careful overall attention to market trends, products and options in the student loan business. Prior to 2000, MHESAC had issued only tax-exempt bonds. Since 2000, MHESAC has issued both tax-exempt and taxable bonds. The issuance of taxable bonds has enabled MHESAC to obtain efficient diversification in its financings through access to the floating rate note market (which is only well-developed for taxable bonds). With the current disruption in the tax-exempt student loan auction bond market, such diversification has proven beneficial to MHESAC as the interest costs on its taxable bonds are currently outperforming its tax-exempt bonds. For instance, as of May 12, 2008, the net interest margin on MHESAC's taxable bonds (used to finance non-Montana loans) is 2.09%, more than fifty basis points above the 1.53% net interest margin on MHESAC's tax-exempt bonds (used to finance Montana loans).

MHESAC also partners with highly rated credit support partners and the Bond Indenture limits investment of funds only to high quality investments. MHESAC's financing techniques are structured to provide strong asset/liability match and with bond repayment flexibility to respond to changing student loan repayment behavior. MHESAC's FFELP loans are serviced by SAF and other servicers who achieved "Exceptional Performer" status from the U.S. Secretary of Education.

- (5) Additional risk mitigation steps include: numerous audits and reviews (financial, performance and compliance) performed on both MHESAC and SAF; steps taken and to be taken by both MHESAC and SAF in

order to improve their financial performance and strengthen their overall competitiveness in the marketplace; and a valuation of every loan purchase and servicing opportunity to ensure that its return will satisfy the thresholds established by the MHESAC and SAF Boards, respectively.

### References

Cover Page from MHESAC Offering Document, dated December 17, 2007  
Letter, dated May 8, 2008, from Legislative Auditor to Board of Regents  
Memorandum, November 21, 1986, from Dorsey-Whitney LLP to MHESAC Board  
Memorandum, dated November 16, 2006, from Commissioner Stearns to MHESAC Subcommittee  
MHESAC Risk Management Practices

### **3. INFORMATION RELATED TO CAPITAL ASSET REQUIREMENTS AND CAPITAL MANAGEMENT PRACTICES OF MHESAC**

MHESAC's general fund has no capital asset requirement.

MHESAC's bonds are issued under the Bond Indenture. These bonds are non-recourse debt payable solely from certain of MHESAC's assets (including FFELP loans financed with the proceeds of such bonds) pledged to the payment of such bonds pursuant to the Bond Indenture. The Bond Indenture establishes the provisions for bonds issued thereunder and the payment and security therefor. Thus, the Bond Indenture: sets forth various covenants and agreements of MHESAC; makes provision for defaults and available remedies upon the occurrence thereof; and establishes the various funds and accounts into which revenues pledged to the payment of the bonds are deposited and utilized.

MHESAC's financing strategy has, to date, utilized a combination of senior bonds and subordinate bonds. The ratio of senior bonds to subordinate bonds is determined as necessary to ensure that all senior bonds issued and outstanding under the Bond Indenture qualify for a "AAA" rating at the time of issuance of any series of bonds. Subordinate bonds have all received an "A" rating at time of issuance. As of April 30, 2008, MHESAC's bonds outstanding under the Bond Indenture consisted of 92.6% senior bonds and 7.4% subordinate bonds, and continue to be rated "AAA" and "A," respectively.

The terms of the Bond Indenture require that certain capital requirements established by the rating agencies be met prior to taking certain actions under the Bond Indenture. In addition, a separate set of capital requirements is typically mandated by any credit support provider.

Under the Bond Indenture, the Senior Asset Requirement (meaning that, as of the date of determination, the Senior Percentage is at least equal to 107% and the

Subordinate Percentage is at least 100%, or such lower percentages as will not result in a lowering or withdrawal of the rating on the bonds) must be met, for example, prior to the issuance of a new series of bonds or the payment of principal or interest, or the redemption of, certain classes of bonds. As of March 31, 2008, the Senior Percentage was 108.1% and the Subordinate Percentage was 100.1%.

The Bond Indenture also prevents the release of surplus moneys from the Bond Indenture unless, after such release, the Senior Percentage is at least equal to 107% and the Subordinate Percentage is at least 102%, or such lower percentages as will not result in a lowering or withdrawal of the rating on the bonds.

Credit support was provided in connection with the issuance by MHESAC of its 2007 bonds (issued in December, 2007), and MHESAC is thus subject to the restrictions imposed by the related credit support agreement. This agreement imposes capital requirements in addition to those already set forth in the Bond Indenture. These include a Minimum Senior Asset Ratio (102%), a Minimum Senior-Subordinate Asset Ratio (98%), a Minimum Tax-Exempt Senior Asset Ratio (105%) and a Minimum Tax-Exempt Senior Subordinate Asset Ratio (99%). Failure to meet any of these ratios could result in an Event of Default under the credit support agreement. As of March 31, 2008, the Minimum Senior Asset Ratio was 108.95%, the Minimum Senior-Subordinate Asset Ratio was 100.97%, the Minimum Tax-Exempt Senior Asset Ratio was 109.44% and the Minimum Tax-Exempt Senior Subordinate Asset Ratio was 100.83%.

MHESAC monitors these ratios and provides reports to the rating agencies and to applicable credit providers that allow them to monitor compliance with these requirements. Additionally, investor information is available about the financial status and asset performance under the Bond Indenture on MHESAC's website at [www.mhesac.org](http://www.mhesac.org)

Additionally, the Bond Indenture requires that a reserve fund be established and funded in an amount equal to the greater of 1% of the amount of bonds outstanding or \$1,000,000 (or, if less, the maximum annual debt service requirement on the senior and subordinate bonds for the then current or any future calendar year). As of April 30, 2008, the reserve fund balance was \$30,566,244 (1.6%).

Student loan financing is a highly leveraged business. As a result, prudent management of capital is necessary and requires extensive analysis of risks and returns associated with both taxable and tax-exempt financings. To assist MHESAC with this effort, cashflows are run on an on-going basis (both internally and by external advisors) and the expertise and advice of nationally-recognized bond counsel, financial advisors, investment bankers and credit providers are utilized by management and the MHESAC Board.

In order to maximize capital, MHESAC finances its Montana loan activity using tax-exempt bonds. The lower costs generally associated with tax-exempt bonds allows MHESAC to obtain strong cash flows on these loans, although Treasury Regulations limit the amount of excess yield on such loans that can be retained by MHESAC.

FFELP loans without a nexus to Montana cannot generally be financed with the proceeds of tax-exempt bonds that were issued using volume cap allocated to Montana. Thus, MHESAC has historically financed its acquisition of such non-Montana loans through the issuance of taxable bonds. MHESAC limits its pre-October 1, 2007 non-Montana loan activity (and the issuance of its taxable bonds) to growth rate levels that are acceptable to its finance and credit providers, rating agencies and that can be accomplished at economic return levels that justify the additional risk of MHESAC issuing bonds to support its non-Montana activity. Given the current state of the financial markets, MHESAC has delayed its next scheduled purchase from MSLF and financing of pre-October 1, 2007 non-Montana loans to late 2008 (assuming the financial markets improve).

MHESAC has undertaken extensive analysis of risks and returns of post-October 1, 2007 FFELP loans. Given the lender yield levels of such FFELP loans, MHESAC does not expect to acquire any non-Montana post-October 1, 2007 FFELP loans. Additionally, given the lender yield levels of post-October 1, 2007 FFELP consolidation loans and the current state of the financial markets, MHESAC has suspended providing consolidation loans to Montanans.

#### References

Excerpt from MHESAC Offering Document, dated December 17, 2007, describing the Bond Indenture

#### **4. DESCRIPTION OF PROCEDURES IN PLACE FOR ACCESSING CAPITAL**

MHESAC accesses capital through the issuance of bonds pursuant to the Bond Indenture, and from the revenue generated by the assets acquired with proceeds of such bonds. The revenue on these assets consists of interest and special allowance on student loans and interest income on investments under the Bond Indenture.

MHESAC issues both tax-exempt and taxable bonds. Its outstanding bonds currently consist of:

Tax-Exempt Auction Bonds	\$1,151,200,000
Tax-Exempt Variable Rate Demand Obligations	175,000,000
Tax- Exempt Fixed Rate Bonds	51,825,000
Taxable Auction Bonds	98,400,000
Taxable Floating Rate Notes	405,035,000

Since 2004, MHESAC has issued less than 35% of its debt as auction bonds.

MHESAC's financing strategy involves obtaining financing type and structure diversification and obtaining full term financing for the FFELP loans it securitizes. The financing strategy also involves efficiently matching the variable rate nature of its loan returns with a comparable variable cost of funds on its financings. It has also been MHESAC's objective to maximize the value of volume cap by structuring its tax-exempt financing in a manner that permits recycling of borrower payments of principal into new Montana FFELP loans during the life of the financing.

The life of the FFELP loans financed can range from 7 years to 30 years. The return on the loans is based on a commercial paper rate. The intent is to match the mechanism for the borrowing cost of the debt as closely as possible to the mechanism that establishes the return on the asset.

Auction bonds have been the prevalent method used for tax-exempt financing of FFELP loans by nonprofit student loan bond issuers (with as much as 85-90% of such financing during the last ten years having been in the form of auction bonds), as a well-developed long-term tax-exempt floating rate note market does not exist and accessing the variable rate demand bond market was potentially more expensive (considering the cost of the required liquidity facility and credit enhancement). The auction bond market developed as a result of concerns that there was not enough liquidity in the form of standby bond purchase agreements and letters of credit in the marketplace to allow all variable rate assets that are financed on a tax-exempt basis to be financed using variable rate demand bonds. Additionally, auction bonds were preferred as variable rate demand bonds are subject to credit support renewal risk that does not apply to auction bonds. The entire auction bond market is approximately a \$330 billion market, of which student loan auction bonds total around \$85 billion.

Some issuers chose to issue tax-exempt variable rate demand bonds, many of which were insured by the nation's largest bond insurers and supported by bank liquidity facilities. With the recent financial and rating problems of these major bond insurers, these bonds have encountered problems of market performance. As permitted in such financings, the bondholders have put their bonds, and, there being no market to repurchase the put bonds, the liquidity providers have ended up holding the bonds. When bonds are so held, the interest rate on such bonds is increased significantly, resulting in greatly increased financing costs for the issuers. MHESAC has not issued any insured variable rate demand bonds.

Floating rate notes have been an effective financing tool used for taxable debt issuance, as they provide a fixed spread to LIBOR that allows an issuer to establish a known and manageable spread between its cost of funds and the return on the student loans financed.

The process for accessing capital involves:

- evaluating the amount of FFELP loan demand to be financed
- discussing the need for financing with the MHESAC Board
- obtaining direction from the MHESAC Board to work on a financing
- engaging a financing team
- evaluating the revenue stream of the FFELP loans to be financed
- evaluating the borrowers relationship to Montana for FFELP loans to be financed in order to determine if the loans can be financed on a tax-exempt basis
- evaluating the current performance and structure of the existing financings under the Bond Indenture to determine the appropriate level of senior bonds and subordinate bonds needed in a financing
- evaluating the merits of various financing structures and current market conditions
- selecting a financing structure
- obtaining rating agency cashflow assumptions
- developing cashflows for rating agency purposes
- negotiating terms of any credit support facility
- holding a public hearing concerning the proposed financing
- obtaining volume cap (if a tax-exempt financing)
- preparing a supplemental indenture and other financing documents
- preparing an offering document
- notifying interested parties of financing plan
- presenting the formal financing plan to the MHESAC Board for their consideration and final approval
- obtaining the Governor's Section 147 approval (if a tax-exempt financing)
- obtaining ratings
- marketing the bonds
- selling the bonds to underwriters
- closing the financing

## **5. INFORMATION ON POTENTIAL RISK OF AUCTION BOND FINANCINGS**

Auction bonds are long-term financings that provide a short-term cost of funds through a periodic reset of the interest rate to be paid on the bonds. At each of these interest reset dates, the current bondholder has the option of continuing to hold the bond at a new interest rate or putting in an order to sell the bond in the auction. A broker-dealer is utilized to solicit bids for the interest rate to be paid for a given auction period and to attempt to maintain a market in which there will be sufficient bids so that any bonds subject to a sell order will be purchased.

Auction bonds have, until recently, been the prevalent method used for tax-exempt financing of FFELP loans by nonprofit student loan bond issuers (with as much as 85-90% of such financing during the last ten years having been in the form of auction bonds). Until recently, the auction bond market had functioned quite well. In the thirteen years MHESAC has had auction bonds outstanding, this financing technique has provided full-term financing for student loan assets while providing a variable rate cost of funds based on the short end of the yield curve which closely matched the variable rate return on the FFELP loans financed.

The risk with auction bonds centers around what happens if one or more current bondholders wish to sell their bonds and there are insufficient bids to purchase all bonds subject to sell orders. In that instance, some or all of such bondholders will be required to continue to hold their bonds and the interest rate on all bonds that were the subject of the auction will be increased to a maximum auction rate prescribed under the applicable indenture. The maximum auction rates are typically established at levels that are high enough to be penal to the financing.

There are additional risks (such as retroactive federal regulatory changes, servicing failures and basis risk mismatches between the return on financed loans and the cost of funds), but these are not unique to auction bonds.

## **6. DESCRIPTION OF THOSE ASSETS THAT HAVE BEEN SECURITIZED IN THE MARKET**

MHESAC has securitized only FFELP loans. Pending the use of proceeds of bonds to acquire FFELP loans, such proceeds are invested in certain permitted investments. Upon receipt of payments on or with respect to financed loans or on other investments under the Bond Indenture, such payments are likewise invested in permitted investments until applied for a purpose permitted under the Bond Indenture. Generally, permitted investments include government obligations, interest bearing time or demand deposits or certificates of deposit less than one year in duration, guaranteed obligations of certain agencies or instrumentalities of the United States of America, repurchase agreements, money market funds, highly rated debt instruments, investment agreements with the general obligation of highly rated entities and other investment agreements approved by the rating agencies.

Four types of loans are currently available under the FFELP: Stafford Loans; Unsubsidized Stafford Loans; PLUS Loans; and Consolidation Loans. These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies and special allowance payments. All of the terms of FFELP loans are established by the federal government. Some of these loan types have had other names in the past. References herein to the various loan types include, where appropriate, predecessors to such loan types.

The primary loan under the FFELP is the Stafford Loan. Stafford Loans generally are made only to student borrowers who meet certain financial needs tests. The interest accruing on a Stafford Loan is paid by the federal government while the borrower is in-school and in certain deferred statuses. The borrower interest rate on Stafford Loans made since June 30, 2006 is 6.8%. The interest rate on new Stafford Loans made on or after July 1, 2008 will be 6.0%, and will drop for new loans made after on or each July 1 thereafter until July 1, 2011, on which date the rate will be 3.4% through June 30, 2012. Effective July 1, 2012, the borrower interest rate is scheduled to return to 6.8%. Earlier Stafford Loans had various borrower interest rates, including fixed rate loans at 7%, 8% and 9% and variable rate loans adjusted annually subject to 7%, 8%, 8.25%, 9% and 10% maximums.

Students who are not eligible for Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Stafford Loans. Unsubsidized Stafford Loans generally are made to student borrowers without regard to financial need. Unsubsidized Stafford Loans were not available before October 1, 1992. The borrower is responsible for all interest that accrues on Unsubsidized Stafford Loans. The borrower interest rate on Unsubsidized Stafford Loans made since June 30, 2006 is 6.8%. Earlier Unsubsidized Stafford Loans had various borrower interest rates, including fixed rate loans at 7%, 8% and 9% and variable rate loans adjusted annually subject to 7%, 8%, 8.25%, 9% and 10% maximums.

A graduate or professional student (effective July 1, 2006) and the parents of a dependent student may be able to obtain PLUS Loans. PLUS Loans are made only to borrowers who are (a) graduate or professional students (effective July 1, 2006) or (b) parents (and, under certain circumstances, spouses of remarried parents) of dependent undergraduate students. For PLUS Loans made on or after July 1, 1993, the parent borrower must not have an adverse credit history (as determined pursuant to criteria established by the Department of Education). The borrower interest rate on PLUS Loans made since July 1, 2006 is 8.25%. Earlier PLUS Loans had various borrower interest rates including fixed rate loans at 9%, 12% and 14% and variable rate loans adjusted annually subject to 9%, 10% and 12% maximums.

Consolidation Loans are available to borrowers with existing loans made under the FFELP and certain other federal programs to consolidate repayment of such existing loans. To be eligible for a Consolidation Loan, a borrower must (a) have outstanding indebtedness on student loans made under the FFELP and/or certain other federal student loan programs, (b) be in repayment status or in a Grace Period, or be a defaulted borrower who has made arrangements to repay the defaulted loan(s) satisfactory to the holder of the defaulted loan(s), and (c) effective October 1, 1998, not be subject to a judgment secured through litigation with respect to certain Higher Education Act loans or certain wage garnishment orders. Various additional limitations on the amount and type of loans that could be consolidated applied to loans made prior to July 1, 1994. The borrower interest rate on Consolidation loans made since October 1, 1998, has been the

weighted average of the interest rates of the loans being consolidated at the time of the consolidation rounded up to the nearest 1/8%, subject to a cap of 8.25%.

Each Guarantee Agency is responsible for depositing to its federal fund an amount equal to 1% of the loan amount on Stafford, Unsubsidized Stafford and PLUS loans as a guarantee fee upon each loan for which it issues a guarantee. This guarantee fee is normally charged to the borrower, unless it is paid on the borrower's behalf by a lender. Additionally, the borrower is currently responsible for paying to the federal government an origination fee in an amount equal to 2% of the loan amount on Stafford, Unsubsidized Stafford and PLUS Loans (unless paid on the borrower's behalf by a lender). Under current federal law, effective July 1, 2008, the origination fee charged to the borrower will be reduced to 1%, and thereafter will be reduced annually until its elimination with respect to all FFELP loans made on or after July 1, 2010.

MHESAC's current FFELP loan breakdown is as follow:

Stafford Loans	\$171,422,804	11.8%
Unsubsidized Stafford Loans	118,623,605	8.1%
PLUS loans	33,069,535	2.3%
Consolidation loans	1,133,291,685	77.8%

It is important to note that MHESAC has provided more than \$790.6 million in capital for Consolidation Loans to Montanans between 1987 and 2008. Much of this activity occurred between 2003 and 2006 as MHESAC borrowers with existing Stafford, Unsubsidized Stafford and PLUS borrowers at that time took advantage of the low interest rate environment and locked their low variable interest rate Stafford, Unsubsidized Stafford and PLUS loans into long-term fixed rate Consolidation Loans based off their then-existing interest rate. For many borrowers this meant they were able to lock in interest rates as low as 2.85%.

The return to the lender on FFELP loans is established by the Federal government. In addition to the interest paid by the borrower (and the interest paid by the federal government on the borrower's behalf on Stafford Loans and certain Consolidation Loans while the borrower is in-school, during their grace period and during certain deferment periods), the Higher Education Act provides for the payment by the Secretary of Education of additional subsidies, called special allowance payments, to holders of qualifying loans. The amount of the special allowance payments, which are made on a quarterly basis, is currently computed by reference to the average of the bond equivalent rates of the quotes of the three-month commercial paper (financial) rates in effect for each of the days in the quarter. The quarterly rate for special allowance payments for FFELP loans is computed by subtracting the applicable interest rate on such loans from the commercial paper rate, then adding a percent specified by the Higher Education Act to the resulting percent, and dividing the resulting percent by four. The applicable percent varies based on the type of loan and when the loan was made (often determined by when the first disbursement was made). In general, for

MHESAC, as an eligible not-for-profit holder, the applicable percentage added to the difference between the borrower interest rate and the commercial paper rate for loans for which the first disbursement of principal is made on or after October 1, 2007, is as follows:

- Stafford or Unsubsidized Stafford Loan  
(prior to the time such loan enters repayment  
and during any deferment periods) 1.34%
- Stafford or Unsubsidized Stafford Loan  
(while such loan is in repayment) 1.94%
- PLUS Loan 1.94%
- Consolidation Loan 2.24%

The special allowance formulas for earlier loans are either based off the average of the bond equivalent rates of the 91-day Treasury bills or the average of the bond equivalent rates of the quotes of the three-month commercial paper depending upon the loans disbursement date. Depending upon the loan type and the disbursement date of the loan, the applicable percentage for pre-October 1, 2007 loans added to the difference between the borrower interest rate and the commercial paper rate varies from 3.5% - 1.74%

The loan return to a lender is reduced by certain fees it must pay to the federal government as follows:

*Lender Loan Fee.* The lender of any loan under the FFELP for which the first disbursement is made on or after October 1, 2007 is required to pay to the Secretary of Education a loan fee equal to 1.0% of the principal amount of such loan made (or 0.5% for loans for which the first disbursement was made prior to October 1, 2007).

*Rebate Fee on Consolidation Loans.* The holder of any Consolidation Loan made on or after October 1, 1993 is required to pay to the Secretary of Education a monthly fee equal to .0875% (1.05% per annum) of the principal amount of, and accrued interest on, such Consolidation Loan; provided that, for Consolidation Loans based on applications received during the period from October 1, 1998 through January 31, 1999, the monthly fee shall equal .0517% (0.62% per annum).

*Recapture of Excess Interest.* For loans for which the first disbursement of principal is made on or after April 1, 2006, if the applicable rate of interest for any three-month period exceeds the special allowance support level applicable to such loan for such period, then an adjustment is made by the lender by calculating the excess interest and by crediting such excess interest to the United States not less often than annually. The "excess interest" is an amount equal to the applicable interest rate minus the special allowance support level, multiplied by the average daily

principal balance of the loan (not including unearned interest added to principal) during such calendar quarter, divided by four.

FFELP loans made on or after October 1, 1993 are guaranteed in the event of borrower death or default on the loan. For loans covered by their respective guarantee programs under the FFELP, guarantee agencies such as the MGSLP are required to guarantee the payment of 98% (or 97% with respect to loans for which the first disbursement is made on or after July 1, 2006 but prior to October 1, 2012, and 95% with respect to loans made on or after October 1, 2012) of the principal amount of loans made on or after October 1, 1993. Earlier loans received 100% coverage of the principal amount of the loan. Prior to October 1, 2007, with respect to a lender or servicer that had received an Exceptional Performer designation, claims were paid up to 99% during the designation period. More than 95% of MHESAC's loans are guaranteed by MGLSP. Guarantee Agencies are eligible to receive federal reimbursement at levels of 100%, 98% or 95% of the amounts it pays a lender if a guarantee payment is made to a lender.

#### References

Excerpt from MHESAC Offering Document, dated December 17, 2007, Describing FFELP

Excerpt from MHESAC Offering Document, dated December 17, 2007, Describing Permitted Investment Securities under the Bond Indenture

#### **7. INFORMATION AS TO THE PERCENTAGE OF STUDENT LOAN BONDS THAT ARE SECURITIZED IN AUCTION RATE BONDS AS OPPOSED TO FIXED RATE BONDS, VARIABLE RATE BONDS, AND POTENTIAL RISK RELATED TO THIS RATIO OF AUCTION BONDS**

The bonds issued under the Bond Indenture consist of:

Tax-Exempt	
Tax-Exempt Auction Bonds	61%
Tax-Exempt Variable Rate Demand Obligations	9%
Tax-Exempt Fixed Rate Bonds	3%
Taxable	
Taxable Auction Bonds	5%
Taxable Floating Rate Notes	22%
Combined Total of Tax-Exempt and Taxable Auction Bonds	
	66%

Since its first bond issues in the early 1980's, MHESAC has used a variety of interest rate structures in financing its FFELP loan acquisition program. During the periods when FFELP loans bore a fixed rate (and especially with respect to

those FFELP loans which, when financed with tax-exempt bonds, received only one-half of the normal special allowance payments but had a floor interest rate of 9 ½%—which was changed by Congress for FFELP loans originated after October 1, 1993), MHESAC was able to issue fixed rate bonds to finance such loans. When FFELP loans began to bear interest at variable rates, MHESAC continued to issue some series of bonds at a fixed rate where the portfolio had a mix of fixed and variable rate loans. However, to match the return on the loans with the interest rate on the bonds, MHESAC entered into interest rate swap agreements with respect to the variable rate loans—which swap agreements proved to be inefficient from a cost perspective. MHESAC thus turned to variable rate bonds to achieve a proper and more efficient matching of interest rates on its subsequent financing of variable rate FFELP loans. MHESAC initially issued some variable rate demand bonds, but subsequently switched to auction bonds when advised that they represented a less expensive alternative and did not have some of the risks inherent in variable rate demand bonds (such as lack of available credit and liquidity support and the risk of non-renewal by the liquidity and/or credit provider). Thus, starting in 1995 and continuing until 2004, auction bonds became the primary vehicle for MHESAC's financing of FFELP loans. It should be kept in mind, however, that MHESAC still had significant amounts of non-auction bonds outstanding during this period. Beginning in 2005, in order to maintain financing diversification, MHESAC has issued less than 35% of its bonds as auction bonds. As stated earlier, the financing diversification obtained by MHESAC since 2004 has proven beneficial to MHESAC, as the interest costs on its taxable financings are currently outperforming its tax-exempt financings.

The risk of this ratio of auction bonds centers around the financial impact of the interest cost the assets under the Bond Indenture must support if auctions fail and the interest rate on the auction bonds goes to the maximum auction rate under the Bond Indenture. In that instance, the bond interest cost is not likely to closely match the variable rate return on the FFELP loans financed. The maximum auction rates are established at levels that are high enough to be penal to the financing. The financings are structured so that the auction bonds can be refinanced without penalty on any interest reset date. The current student loan financing market for MHESAC is unfavorable (liquidity is scarce and borrowing costs are uneconomical). As the market improves, however, MHESAC expects to refund its tax-exempt auction bonds into other financing types (preferably tax-exempt variable rate demand bonds).

Substantial growth in MHESAC's debt levels has occurred since 2000, as has the size of MHESAC's FFELP loan portfolio. While about \$517 million of this growth has occurred as a result of MHESAC's expansion onto the national market, its growth in Montana-based activity has grown by \$590 million. The growth in Montana activity has been the result of increased borrowing by Montana students in order to satisfy the cost of education, the return of Montana State University to FFELP and increased usage of Consolidation Loans by

Montana borrowers to manage monthly student loan debt loads and to lock in favorable interest rates.

## **8. INFORMATION CONCERNING THE DECISIONS MADE IN SECURITIZING ASSETS**

The following are the major decisions that are involved in securitizing MHESAC's student loans.

- What is the future and existing demand for FFELP loans?
- Does MHESAC have sufficient equity (and cash) on its balance sheet to support the student loans until their maturity?
- Is the financing necessary in order to ensure capital for Montana student loans or does MHESAC have other monies or recycled funds available in existing financings to satisfy secondary market and origination demand for Montana FFELP loans?
- What are the costs associated with various financing types?
- What are the risks associated with various financing types?
- Does the financing provide an adequate asset/liability match?
- Does the financing enhance MHESAC's overall financing diversification?
- Can a financing be accomplished that is profitable in the then existing market?
- Can a financing be accomplished that can meet rating agency stress case assumptions?
- Does the financing provide permanent financing?
- What should be the final maturity of the financing?
- Is volume cap available?
- Can a financing be structured that provides Montana borrower benefits?
- What is the credit support refinancing exposure?
- Does the financing schedule conflict with any scheduled financings of Montana state agencies where both issuers might be marketing to the same investors?

## **9. INFORMATION ON FINANCING IN PLACE FOR THE UPCOMING ACADEMIC YEAR**

In December, 2007, MHESAC issued \$175 million of variable rate demand obligations (VRDOs).

MHESAC's VRDOs do not involve bond insurance, as has been the case with most of the variable rate demand bonds issued by other student loan issuers. The VRDOs provide a short-term cost of funds through a periodic reset of the interest rate to be paid on the obligations—currently reset every seven days. A holder of a VRDO has the option to tender its VRDO on seven days' notice. A remarketing agent has agreed to remarket any VRDOs so tendered. In the event that a VRDO

cannot be so remarketed, a liquidity provider has, pursuant to a standby bond purchase agreement, agreed to buy such VRDO assuming certain events of default have not occurred. The interest rate paid on the VRDO while held by the liquidity provider is significantly higher than the tax-exempt rate on the VRDOs, and increases depending on the length of time the VRDO is so held. The standby bond purchase agreement is scheduled to expire in December, 2008, but is subject to renewal.

Currently, \$159 million is available under this financing to originate or purchase Stafford, Unsubsidized Stafford and PLUS Loans for Montanans this fall. Additionally, with MHESAC's decision to suspend the making of Montana Consolidation Loans, up to \$50 million in recycled borrower payments are expected to be available in earlier financings for Stafford, Unsubsidized Stafford and PLUS Loans for Montanans.

**10. RELATIONSHIP BETWEEN MHESAC AND SAF, INCLUDING, BUT NOT LIMITED TO, CONTRACTS BETWEEN THE TWO ENTITIES**

The relationship between MHESAC and SAF is described in the background information section of this response. Copies of the Management and Servicing Agreements between MHESAC and SAF are enclosed.

References

Management Agreement  
Servicing Agreements

**11. INFORMATION RELATING TO THE COSTS OF MHESAC**

Costs associated with MHESAC's financing are:

- interest costs on bonds and notes
- amortization of bond issuance costs
- payments to auction agents, broker-dealers, remarketing agents and liquidity providers
- payments to Bond Indenture trustee and arbitrage calculation firms
- loan origination fees paid to the federal government
- consolidation loan rebate fees paid to the federal government
- payments to swap counterparties
- unreimbursed bad debt expenses
- arbitrage rebate due to the federal government
- borrower benefits paid to students

Other costs incurred by MHESAC are:

- management fees paid to SAF under the Management Agreement
- servicing fees paid to SAF under the Servicing Agreements
- board costs, including meeting costs, travel, stipends and insurance

**12. LIST OF THOSE ENTITIES INVOLVED IN THE RATING OF MHESAC'S BONDS AND INFORMATION AS TO ANY CONCERNS WITH SUCH ENTITIES**

All of MHESAC's senior bonds are rated in the highest long-term rating category by Moody's Investors Service ("Aaa") and Fitch Ratings ("AAA"). Certain of MHESAC's senior bonds are also rated by Standard & Poor's, in each case in its highest long-term rating category ("AAA").

All of MHESAC's subordinate bonds are rated by Moody's Investors Service ("A2") and Fitch Ratings ("A"). Certain of MHESAC's subordinate bonds are also rated by Standard & Poor's ("A").

**13. INFORMATION ON ANY CHANGES IN MHESAC'S BOND RATINGS IN THE LAST 6 MONTHS**

The ratings on MHESAC's bonds have not changed in the last six months.

**14. DESCRIPTION OF THOSE ASSETS HELD IN A CREDIT WAREHOUSING FACILITY**

MHESAC currently has no credit warehousing facility. It had a \$15 million warehousing line of credit with the Montana Board of Investments that was paid in full and closed on August 1, 2007. The assets held under this line were FFELP loans.

MLSF was created to provide a vehicle for the temporary financing of FFELP loans pending their sale to MHESAC. MSLF has entered into a warehousing indenture and other related agreements pursuant to which it borrows moneys to purchase or originate FFELP loans. The response from SAF includes information on this credit warehousing facility and a detailed response to this specific question.

**15. INFORMATION ON POTENTIAL RISK OF CREDIT WAREHOUSING FACILITIES**

MHESAC currently has no credit warehousing facility. The response from SAF includes information on this request.

## **REFERENCES**

MHESAC Articles of Incorporation  
MHESAC 2007 Annual Report  
MHESAC Offering Document, dated December 17, 2007  
Excerpt from Kohne O'Neill Evaluation of MHESAC Strategic Alternatives  
(Revised), dated November 27, 1998  
MHESAC Borrower Benefits Delivered Summary  
SAF Public Benefit Programs Delivered Summary  
June 30, 2007 MHESAC Audited Financial Statements  
Cover Page from MHESAC Offering Document, dated December 17, 2007  
Letter, dated May 8, 2008, from Legislative Auditor to Board of Regents  
Memorandum, dated November 21, 2006, from Dorsey-Whitney LLP to  
MHESAC Board  
Memorandum, dated November 14, 2006, from Commissioner Stearns to  
MHESAC Subcommittee  
MHESAC Risk Management Practices  
Excerpt from MHESAC Offering Document, dated December 17, 2007,  
Describing the Bond Indenture  
Excerpt from MHESAC Offering Document, dated December 17, 2007,  
Describing FFELP  
Excerpt from MHESAC Offering Document, dated December 17, 2007,  
Describing Permitted Investment Securities under the Bond Indenture  
Management Agreement, including amendments  
Servicing Agreements, including amendments