NORTHSTAR EDUCATION FINANCE, INC. AND SUBSIDIARY

Eagan, Minnesota

FINANCIAL STATEMENTS

Including Independent Auditors' Report

As of and for the Years Ended September 30, 2016 and 2015

NorthStar Education Finance, Inc. and Subsidiary

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
NorthStar Education Finance, Inc.
Eagan, Minnesota

We have audited the accompanying consolidated financial statements of NorthStar Education Finance, Inc. and its subsidiary, which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NorthStar Education Finance, Inc. and its subsidiary as of September 30, 2016 and 2015 and the results of their activities and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Baker Tilly Virchow Krause, LLP

Minneapolis, Minnesota
December 14, 2016

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As of September 30, 2016 and 2015
(in thousands)

ASSETS

	2016	2015
ASSETS		
Cash and cash equivalents (Note 2)	$ 17,142	$ 8,324
Unrestricted investments (Note 2)	4,000	-
Student loans, net (Notes 2, 3, and 4)	2,901,040	3,287,674
Interest receivable	32,995	39,652
Servicer receivable (Note 2)	2,009	2,702
Restricted cash and cash equivalents (Note 2)	158,643	114,083
Restricted Investments (Note 2)	17,646	19,639
Prepaid expenses and other assets	92	222
TOTAL ASSETS	$ 3,133,567	$ 3,472,296

LIABILITIES AND NET ASSETS

	2016	2015
LIABILITIES		
Accounts payable and accrued liabilities	$ 7,236	$ 6,568
T.H.E. repayment bonus liability (Notes 2 and 8)	32,845	5,717
Government payable (Note 2)	5,405	8,249
Long-term debt (Note 5)		
Principal	2,919,524	3,236,355
Less: unamortized debt issuance costs and original issue discount (Note 2)	(13,426)	(9,861)
Long-term debt, net	2,906,098	3,226,494
Total Liabilities	2,951,584	3,247,028
NET ASSETS		
Net assets - unrestricted	181,983	225,268
TOTAL LIABILITIES AND NET ASSETS	$ 3,133,567	$ 3,472,296

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2016 and 2015
(in thousands)

	2016	2015
OPERATING REVENUE		
Student loan interest income (Note 2)	$ 34,051	$ 75,833
OPERATING EXPENSES		
Interest expense	35,914	29,497
Financing expense	1,852	1,992
Loan servicing fees	15,386	17,243
Loan consolidation fees	22,429	24,397
Recovery of provision for loan losses (Note 4)	(294)	(789)
Federal loan default expense	332	386
Legal expenses (Note 8)	153	2,492
Professional services	859	796
Grants and other donations	869	819
Other	280	148
Total Operating Expenses	77,780	76,981
OTHER INCOME (EXPENSE):		
Sub-servicing fees	218	231
Interest income	228	111
Other (expense) income	(2)	977
Total Other Income	444	1,319
CHANGE IN NET ASSETS	(43,285)	171
NET ASSETS, BEGINNING OF PERIOD	225,268	225,097
NET ASSETS, END OF PERIOD	$ 181,983	$ 225,268

See accompanying notes to consolidated financial statements.

NorthStar Education Finance, Inc. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended September 30, 2016 and 2015
(in thousands)

		2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES			
Change in net assets	$	(43,285)	171
Adjustments to reconcile change in net assets to cash flows from operating activities			
Amortization of loan premium costs		11,437	10,797
Other amortization		2,216	1,669
Recovery of provision for loan losses		(294)	(789)
(Increase) decrease in assets			
Interest receivable		6,657	9,935
Servicer receivable		11,334	(2,237)
Prepaid expenses		130	(154)
Increase (decrease) in liabilities			
Accounts payable and accrued liabilities		668	(456)
T.H.E. repayment bonus commitment		27,128	4,801
Government payable		(2,844)	(1,466)
Net Cash Flows Provided By Operating Activities		13,147	22,271
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from payments on student loans		375,491	346,269
Proceeds from maturities of restricted investments		1,993	-
Purchases of restricted investments		-	(19,639)
Purchases of unrestricted investments		(4,000)	-
Net change in restricted cash		(55,201)	17,350
Net Cash Flows Provided By Investing Activities		318,283	343,980
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of debt, net of original issue discount of $4,338		85,662	-
Payments for debt issuance costs		(1,443)	-
Payments on long-term debt		(406,831)	(365,318)
Net Cash Flows Used in Financing Activities		(322,612)	(365,318)
Net Increase in Cash and Cash Equivalents		8,818	933
CASH AND CASH EQUIVALENTS - Beginning of Year		8,324	7,391
CASH AND CASH EQUIVALENTS - End of Year	$	17,142	8,324
CASH PAID FOR INTEREST	$	26,752	27,785

See accompanying notes to consolidated financial statements.

NOTE 1 - Business Operations

NorthStar Education Finance, Inc. ("NEF" or the "Company") is a Delaware non-stock nonprofit corporation that was incorporated in January 2000 and was formed to administer the student loan programs started by NorthStar Guarantee, Inc. Shortly after receiving a favorable determination from the Internal Revenue Service in March of 2003 that NEF was an organization described in Section 501(c)(3) of the Internal Revenue Code, NorthStar Guarantee, Inc. transferred beneficial ownership of all remaining assets (including all student loans) to NEF, and NEF assumed all associated liabilities. Effective July 1, 2010, federal legislation eliminated the authority to provide new loans under The Federal Family Education Loan Program ("FFELP") and required that all new federal loans be made through the Direct Student Loan Program ("DSLP"). Because of this and disruptions in the credit markets, the Company is no longer in the business of originating federal or private student loans, but continues to manage its historic loan portfolio.

The Company is dedicated to helping students obtain an affordable education and it continues to support its charitable purpose, which is to foster, aid, encourage and assist the pursuit of higher education. Supporting its mission, the Company provides students who have existing loans which were issued under NEF's T.H.E. Loan Program, the lowest possible cost on their loans. In particular, the Company returns excess revenues to eligible student borrowers in the form of the T.H.E. Repayment Bonus ("T.H.E. Bonus"). NEF's primary charitable goals are to (a) continue servicing its outstanding student loans; (b) continue to provide education and assistance to student borrowers to enable them to successfully repay their loans; (c) manage its financings as necessary to maximize the T.H.E. Bonus paid to student borrowers; and (d) make grants to other organizations in furtherance of its educational mission.

The Company has financed its student loan portfolio through a series of student loan asset-backed note issues, beginning with the first issue in the year 2000. As a result, most of the Company's student loans have been pledged under indentures and are held by trusts specific to the respective securities issues.

NEF's Board of Directors provides oversight to the Company, but as NEF has no employees, management and administrative operations are performed by a third party pursuant to a Master Services Agreement ('MSA') between NEF and NorthStar Capital Market Services, Inc. ('NCMS') and a Subservicing Agreement between NCMS and NorthStar Education Services, LLC ('NES'), a wholly-owned subsidiary of Great Lakes Education Loan Servicing, Inc. The MSA will expire in August 2017. The Subservicing Agreement is in effect until the expiration or termination of the MSA. The Company is currently negotiating arrangements for a successor administrator.

All T.H.E Loan Program loans, related financial assets and associated liabilities are assets or liabilities of NEF, either directly or through its wholly-owned limited liability company subsidiary, NorthStar Education Funding, I, LLC. Any potential claims against or liabilities of the subsidiary would be payable only out of the assets of that subsidiary.

NOTE 2 – Summary of Significant Accounting Policies

Cash and cash equivalents

Cash and cash equivalents consist of a checking and savings account. The amounts may exceed federally insured limits. Cash pledged as collateral for securities included in long-term debt is excluded from cash and cash equivalents and presented in these consolidated financial statements as restricted cash and cash equivalents.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Unrestricted investments

Unrestricted investments represent unrestricted cash which has been invested in government treasury notes with original maturities greater than three months. Maturities for these investments range from approximately twelve months to three years. These are considered as held-to-maturity securities and are recorded at cost. See Note 7 for fair values.

Student loans and allowance for loan losses

The Company's portfolio of student loans consists of federal and private student loans. Federal loans have an estimated twenty-five year life and the private loans have an estimated fifteen to twenty year life. Federal loans are recorded at cost, and are presented net of unamortized premium costs on the Consolidated Statements of Financial Position. The Company utilizes the interest method to amortize these costs, taking into account actual loan prepayments.

Federal student loans are guaranteed by the Department of Education ("DOE"), with reimbursement rates ranging from 97% to 100% of principal and related accrued interest balances. Pursuant to federal regulations, the Company is required to repurchase (from the respective guarantor) a loan that was reimbursed under a bankruptcy claim if the bankruptcy is subsequently dismissed by the court or, as a result of the hearing, the loan is considered non-dischargeable and the borrower is responsible for repayment of the loan. Due to management's historical experience with its portfolio of federal loans and the guarantee, no provision for federal student loan losses has been provided for by management in the consolidated financial statements.

Private student loans are recorded at cost and reported net of the allowance for loan losses ("allowance") on the Consolidated Statements of Financial Position. The Company's allowance represents a reserve for the probable and inherent losses on the Company's private student loans. Following the guidance under Accounting Standard Codification (ASC) 450-20, management evaluates the allowance on a quarterly basis to ensure the reserve is adequate to reflect any potential losses to be incurred. As all private student loans are considered as having similar risk characteristics (the majority were originated under the same stringent underwriting guidelines, to students attending similar high quality schools, etc.-see Note 4), the evaluation and analysis is performed on the entire pool of private student loans. The evaluation includes a review of historical losses and any new trends and/or conditions (including the general economic environment) that may impact the Company's ability to collect on its portfolio of private student loans. The evaluation and analysis resulting from these reviews are used in management's determination of the amount of the allowance.

Defaulted loans are charged off to the allowance when a loan is greater than 180 days delinquent and after consideration has been made regarding the borrower's financial condition and internal collection efforts have been exhausted. Subsequent recoveries of accounts previously charged off are recorded to the allowance.

Management believes the allowance for loan losses is adequate as of September 30, 2016 and 2015. While management used available information to estimate losses on private loans, future adjustments to the allowance for loan losses may be necessary based on changes in economic conditions.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Servicer receivable

Servicer receivable represents student loan principal and interest payments collected and applied to borrower balances by the Company's third party servicer (Great Lakes Educational Loan Services, Inc.) that have not yet been remitted to the Company. No allowance was deemed necessary as of September 30, 2016 and 2015.

Restricted cash and cash equivalents

The Company's restricted cash and cash equivalents include cash pledged as collateral for securities included in long-term debt. Cash pledged as collateral is held by a trustee in various accounts subject to use restrictions imposed by trust indentures specific to each of the Company's security issues. Pursuant to stipulations in these indentures, cash held in trust funds must be used for distributions as required under the specific indenture obligations. Restricted cash and cash equivalents consist of accounts invested in highly liquid financial instruments with stated maturities of three months or less. The amounts may exceed federally insured limits.

The Company's restricted cash and cash equivalents also include cash that has been released from two of the Company's trusts (which allow such releases) and which the Company has an obligation under a certain settlement agreement (See Note 8) to use this cash to make T.H.E. Bonus distributions.

Restricted investments

Restricted investments represent restricted cash which has been invested in government treasury notes with original maturities greater than three months. Maturities for these investments range from four months to five years. These are considered as held-to-maturity securities and are recorded at amortized cost. See Note 7 for fair values.

Government payable

Government payable represents payments due to the DOE for borrower interest earned on federal student loans which is in excess of the Special Allowance Payments ("SAP") formula, as established under The Higher Education Act of 1965 (the "Act"). See Student loan interest income - Federal loans below.

Debt issuance costs and original issue discount ("OID")

The Company's debt issuance costs are amortized at the rate the corresponding debt is paid down. During the fiscal year ended September 30, 2015, the Company early adopted Accounting Standards Update No. 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*, or ASU 2015-03, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with the presentation of a debt discount. Additionally, amortization of debt issuance costs is to be reported as interest expense. See *Recently Issued Accounting Pronouncements* below. As a result, unamortized debt issuance costs of $9,106 and $9,861 as of September 30, 2016 and 2015, respectively, are presented as a deduction from long-term debt on the Statement of Financial Position, and amortization of debt issuance costs of $2,198 and $1,669, for the years ended September 30, 2016 and 2015, respectively, is reported as interest expense on the Statement of Activities.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

The Company's OID, which is associated with its Series 2016A debt issue (see Note 5), is amortized and presented in the same manner as the Company's debt issuance costs, as described above. Unamortized OID of $4,320 and $0 as of September 30, 2016 and 2015, respectively, is presented as a deduction from long-term debt on the Statement of Financial Position, and amortization of OID of $18 and $0, for the years ended September 30, 2016 and 2015, respectively, is reported as interest expense on the Statement of Activities.

Income taxes

The Company is a tax-exempt organization set up under the provisions of the Internal Revenue Code Section 501(c)(3).

Management accounts for uncertainty in income taxes based on a threshold of more likely than not for recognition of tax positions taken or expected to be taken in a tax return. The Company has no uncertain tax positions meeting the threshold. Federal returns for tax years after 2010 remain subject to examination by the Internal Revenue Service.

Net assets

Net assets and revenues are classified based on the existence or absence of restrictions. Accordingly, net assets of the Company are classified and reported as follows:

Unrestricted net assets include net assets which are not subject to any restrictions.

Principles of consolidation

The consolidated financial statements for the years ended September 30, 2016 and 2015 include the accounts of NEF and the accounts associated with the beneficial interests of its subsidiary, NorthStar Education Funding I, LLC, the depositor entity which holds all beneficial interests in the loans pledged to two trusts specific to NEF's 2012A and 2016A financings (see Note 5).

Student loan interest income

Federal loans

The Company's federally-guaranteed student loans were originated under the Federal Family Education Loan Program (FFELP). The Company earns interest at the greater of the borrower's rate or a floating rate which is based on 1-month London Inter-Bank Offered Rate (LIBOR). If the floating rate exceeds the borrower rate, the DOE makes a payment directly to the Company based upon SAP formulas established under the Act. If the floating rate is less than the rate the borrower is obligated to pay, the Company earns interest at the borrower rate on all loans with first disbursements prior to April 1, 2006. For loans with first disbursements on or after April 1, 2006, the Company must remit back to the DOE on a quarterly basis any borrower interest in excess of the SAP formula. The interest rates on the majority of the Company's federal loans are fixed to term, with a small number of others with variable rates based on the 91-day U.S. Treasury bill.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Private loans

The Company's private student loans have variable interest rates that reset quarterly with the majority based on 3-month LIBOR.

Student loan premiums

Student loan premiums consist of origination and lender fees paid to the DOE on federal loans originated by the Company, premiums paid in the acquisition of student loans and certain expenses incurred to originate student loans. The Company utilizes the interest method to amortize these costs, taking into account actual loan prepayments. Student loan interest income is shown net of amortization of premiums of $11,437 and $10,797 for the years ended September 30, 2016 and 2015, respectively, on the Consolidated Statements of Activities.

T.H.E. repayment bonus commitment

The T.H.E. repayment bonus commitment represents the Company's obligation to make payments on eligible borrower accounts to reduce the amount of interest due on their loans. The funding source for these bonus payments is excess cash released from certain of the Company's secured bond financings which allow cash releases pursuant to terms and conditions of trust indenture agreements. Once the funding source is available, the Company has an obligation to make these bonus payments, net of attorney fees (up to a specified maximum amount), to eligible borrower accounts. See Note 8. Student loan interest income is shown net of T.H.E. repayment bonus commitments of $49,853 and $13,734 for the years ended September 30, 2016 and 2015, respectively, on the Consolidated Statements of Activities. Cash that has been released which is in excess of T.H.E. repayment bonus payments made to eligible borrower accounts (and thus, available and to be used for future bonus payments) is reported as a liability on the Statement of Financial Position.

Interest expense

The Company has financed its student loan portfolio with securities which have interest rates that, based on contractual agreements, are indexed to U.S. Treasury bill rates or LIBOR.

Loan consolidation fees

Loan consolidation fees represent monthly rebate fees paid to the DOE which are required of lenders who hold consolidation loans. The rate used to calculate the fee is determined by the date the loan was disbursed and is applied to the principal amount plus accrued unpaid interest on the loan to calculate the amount of the monthly fees due.

Reclassifications

For comparability, certain 2015 amounts have been reclassified to conform to classifications adopted in 2016. This had no impact on the 2015 change in net assets or the net assets as of September 30, 2015.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

Use of estimates

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

Recent accounting pronouncements

In June 2015, the FASB issued Accounting Standards Update 2015-10, *"Technical Corrections and Improvements"*. The amendments in Accounting Standards Update ("ASU") 2015-10 represent changes to clarify the Codification, correct unintended application of guidance, or make minor improvements to the Codification that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. In addition, some of the amendments are intended to make the Codification easier to understand and easier to apply by eliminating inconsistencies, providing needed clarifications, and improving the presentation of guidance in the Codification. Transition guidance varies based on the different amendments in this update beginning after December 15, 2015 and early adoption is permitted. The Company is in the process of evaluating this standard, but does not expect its adoption to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *"Recognition and Measurement of Financial Assets and Liabilities"*. The amendments in this ASU make targeted improvements to generally accepted accounting principles (GAAP) by addressing certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The ASU is effective for not-for-profit organizations for fiscal years beginning after December 15, 2018. The new guidance permits early adoption of the provision that exempts private companies and not-for-profit organizations from having to disclose fair value information about financial instruments measured at amortized cost. The Company early adopted this provision, and as a result, the fair value of the Company's unrestricted and restricted investments has not been disclosed for the year ended September 30, 2016 and 2015.

NOTE 2 – Summary of Significant Accounting Policies (cont.)

In June 2016, the FASB issued ASU 2016-13, *"Measurement of Credit Losses on Financial Instruments"*. The amendments in this Update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimate. The provisions of the ASU require a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial asset(s) to present the net carrying value at the amount expected to be collected on the financial asset. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. An entity must use judgment in determining the relevant information and estimation methods that are appropriate in its circumstances. The amendments in this ASU are an improvement because they eliminate the probable initial recognition threshold in current GAAP and, instead, reflect an entity's current estimate of all expected credit losses. Previously, when credit losses were measured under GAAP, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in this ASU broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss, which will be more decision useful to users of the financial statements. For all non-public entities, including not-for-profits, the amendments of this ASU are effective for fiscal years beginning after December 15, 2020. The Company is in the process of evaluating this ASU, but based in its current methodology for determining its allowance for credit losses, it does not expect its adoption to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, *"Presentation of Financial Statements of Not-For-Profit Entities"*. The amendments provided in ASU 2016-14 change the presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. The ASU addresses qualitative and quantitative matters concerning net assets, investment return, expenses, liquidity and availability of resources, and the presentation of operating cash flows. The ASU is effective for not-for-profit organizations for annual financial statements issued for fiscal years beginning after December 15, 2017 and early application of the amendments is permitted. The Company is in the process of evaluating this ASU, but does not expect its adoption to have a material impact on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, *"Classification of Certain Cash Receipts and Cash* Payments". The amendments in this ASU provide guidance on eight specific cash flow issues, including 1) debt prepayment or debt extinguishment costs, 2) settlement of zero (or 'insignificant') coupon debt instruments,3) contingent consideration payments made after a business combination, 4) proceeds from the settlement of insurance claims, 5) proceeds from the settlement of corporate-owned life insurance policies, 6) distributions received from equity method investees, 7) beneficial interests in securitization transactions and 8) the classification of cash receipts and payments that have aspects of more than one class of cash flows. The ASU is effective for all non-public organizations for annual financial statements issued for fiscal years beginning after December 15, 2017 and early application of the amendments is permitted. The Company is in the process of evaluating this ASU, but does not expect its adoption to have a material impact on its consolidated financial statements.

(in thousands)

NOTE 3 – Student Loans, Net

Student loans, net, consisted of the following as of September 30, 2016 and 2015:

	2016	2015
Federal guaranteed student loans	$ 2,567,449	$ 2,885,408
Private student loans	300,859	359,046
Unamortized loan premiums	37,213	48,650
Total	2,905,521	3,293,104
Allowance for loan losses (Note 4)	(4,481)	(5,430)
Student loans, net	$ 2,901,040	$ 3,287,674

NOTE 4 - Allowance for Loan Losses

The change in the allowance for loan losses for the years ended September 30, 2016 and 2015 consisted of the following:

	2016	2015
Beginning balance	$ 5,430	$ 6,649
Recovery of provision for loan losses	(294)	(789)
Charge-offs, net of recoveries	(655)	(430)
Ending balance	$ 4,481	$ 5,430

The Company's allowance represents an allocation of net assets for the estimated losses on the Company's student loans. Following the guidance under Accounting Standard Codification (ASC) 450-20, management evaluates the allowance on a quarterly basis to ensure the reserve is adequate to reflect any probable and inherent losses to be incurred. As all private loans are considered as having similar risk characteristics (the majority were originated under the same stringent underwriting guidelines, to similar students attending high-quality schools, etc.-see below), the evaluation and analysis is performed on the entire pool of private student loans. The evaluation includes a review of historical losses and any new trends and conditions (including the general economic environment) that may impact the Company's ability to collect on its private student loans. The evaluation and analysis resulting from these reviews are used in management's determination of the amount of the allowance.

(in thousands)

NOTE 4 - Allowance for Loan Losses (cont.)

As of September 30, 2016 and 2015, student loans totaling approximately $28,256 and $33,533, respectively, were 91 days or more delinquent. Of these totals, approximately $23,527 and $29,131 were federal guaranteed student loans and approximately $4,730 and $4,401 were private student loans as of September 30, 2016 and 2015, respectively.

Information about the credit quality of the Company's private student loans for the years ended September 30, 2016 and 2015 is as follows:

	2016		
	Outstanding balance	Percentage of repayment	Percentage of total
Grace	$ 473		0.2%
Deferment	7,973		2.5
Forbearance	2,125		0.7
Repayment			
Current	278,017	95.6%	
Delinquent 31-60 days	6,105	2.1	
Delinquent 61-90 days	1,909	0.7	
Delinquent 91 days or greater	4,730	1.6	
Total in repayment	290,761	100.0%	96.6
Total	$ 301,332		100.0%

	2015		
	Outstanding balance	Percentage of repayment	Percentage of total
In school and grace	$ 1,596		0.4%
Deferment	11,630		3.2
Forbearance	2,271		0.6
Repayment			
Current	329,323	95.9%	
Delinquent 31-60 days	7,599	2.2	
Delinquent 61-90 days	2,226	0.6	
Delinquent 91 days or greater	4,401	1.3	
Total in repayment	343,549	100.0%	95.8
Total	$ 359,046		100.0%

NOTE 4 - Allowance for Loan Losses (cont.)

The Company's private student loans were originated using the Company's program guidelines, with loans being made only to eligible borrowers at eligible schools. Borrower eligibility was determined through a proprietary credit underwriting process utilizing credit scoring models, cosigner requirements and consideration of other factors such as school eligibility. School eligibility was determined by the Company, based on the school's historical default experience. All loan servicing functions are performed by Great Lakes Educational Loan Services, Inc. To supplement these services, NES performs additional collection activities which are administered by its default aversion group.

Because each of the loans in the Company's federal student loan portfolio is guaranteed at a level between 97% and 100%, management believes the aggregate risk of loss is not meaningful to the financial condition of the Company. Accordingly, no allowance for loan losses has been established for these loans, and the detailed credit quality information similar to that presented for the Company' private loan portfolio has been intentionally omitted.

NOTE 5 - Long-Term Debt

The Company has, from time to time, issued taxable student loan asset-backed notes to finance its student loans as follows:

Years 2000-2007

The Company issued a series of securities under two separate master trusts. One of the trusts, the FFELP Master Trust, is secured by a pool of federally-guaranteed student loans originated under the Federal Family Education Loan Program. The other trust, the Private Master Trust (or 'Series 2006A) is secured by a pool of private student loans. The securities issued under these two master trusts are secured by the respective federal and private student loan portfolios, accrued interest on the loans, and other assets pledged as collateral in each of the respective trusts.

The notes issued by the Company included senior and subordinate LIBOR rate notes and senior reset rate notes, all of which were issued at a fixed spread to 3-month LIBOR. The senior LIBOR rate notes issued under the FFELP Master Trust were issued at a fixed maturity with targeted amortization schedules. The Company also issued senior and subordinate auction rate notes with interest rates that are reset every 28 days based upon auction procedures. These securities have approximately forty year maturities with prepayment at the option of the Company.

As of both September 30, 2016 and 2015, the Company held $797,850 of taxable auction rate notes. Beginning in February 2008, a disruption in the auction rate securities market resulted in failures in auctions on these notes. As a result, all of the Company's auction rate notes bear interest at the maximum rate allowable under their terms. The maximum allowable interest rates on these taxable auction rate securities is based on the 91 day U.S. Treasury Bill plus 1.20% on the AAA rated securities and the 91 day U.S. Treasury Bill plus 1.50% on the A rated securities, and uses a rolling 13-month reset period average to determine the actual interest rate. The rates reset every 28 days.

NOTE 5 - Long-Term Debt (cont.)

The Company's reset rate notes are subject to periodic remarketing, at which time the interest rates on the reset rate notes are reset. In the event a reset rate note cannot be remarketed on its remarketing date and is not repurchased, the interest rate generally steps up to and remains at 3-month LIBOR plus 0.75 percent, until such time as the bonds are successfully remarketed or refinanced. As of September 30, 2016 and 2015, all three reset rate notes have gone through failed remarketing with interest rates remaining at 3-month LIBOR plus 0.75 percent.

Unamortized debt issuance costs associated with these financings were approximately $6,054 and $6,700, respectively, as of September 30, 2016 and 2015.

Year 2011

In May 2011, the Company completed a loan sale and refinance, which included the issuance of loan participation promissory notes bearing interest at a fixed spread to 1-month LIBOR. The Company invested approximately $9,100 of its own funds to complete this transaction. In September 2016, these notes were paid off in full with funds from the issuance of the Series 2016A notes (see Year 2016 below). Unamortized debt issuance costs associated with this refinance were approximately $0 and $200, respectively, as of September 30, 2016 and 2015.

Year 2012

In October 2012, the Company completed two separate asset-backed refinancing transactions totaling $785,300, for the purpose of using the proceeds to repay the Company's two lines of credit. The two transactions included one structured issue totaling $686,600 secured by a portfolio of federally insured FFELP student loans (NorthStar Student Loan Trust I, or the "2012-1" Issue), and one private issue totaling $98,700 secured by a portfolio of private student loans (NorthStar Student Loan Trust II, or the "2012A" Issue) and backed by a letter of credit ("LOC") issued by Royal Bank of Canada. The LOC had an initial term through September 15, 2015, and this was extended for an additional three months, once in August 2015 and again in November 2015. In February 2016, the Company extended the LOC for an additional nine months through October 15, 2016.

The notes and bonds issued under both the 2012-1 and 2012A issues are obligations of separate trusts, NorthStar Student Loan Trust I and NorthStar Student Loan Trust II, respectively. Notes issued in conjunction with the 2012-1 refinancing included senior LIBOR notes at a fixed spread to 1-month LIBOR, and a subordinate note at a fixed spread to 3-month LIBOR. Notes issued in conjunction with the 2012A refinancing included adjustable rate revenue bonds, with a variable interest rate based on 1-month LIBOR. NEF, as the Sponsor, invested approximately $8,900 in total to both issues to complete the refinancing transactions. Unamortized debt issuance costs associated with these refinancing transactions were approximately $1,615 and $2,900, respectively, as of September 30, 2016 and 2015.

NOTE 5 - Long-Term Debt (cont.)

Year 2016

On September 7, 2016, NEF completed an asset-backed re-financing with a debt issuance totaling $90,000 (par value) for the primary purpose of using the net proceeds to pay in full the 2012A notes. The refinancing included a structured issue secured by a portfolio of private student loans (NorthStar Student Loan Trust III, or the "2016A" Issue). The loan participation promissory notes issued in Year 2011 were also paid off in full from the net proceeds of the 2016A issuance. Additionally, the Company received proceeds of approximately $16,200 from overcollateralization on the transaction. These funds represent a return of the majority of the Company's investments in the re-financings in years 2011 and 2012 totaling approximately $18,000. The remaining investment of approximately $1,800 will be reimbursed to the Company with future returns. The notes issued in conjunction with the 2016A re-financing, which are obligations of NorthStar Student Loan Trust III, included senior and subordinate LIBOR notes at a fixed spread to 1-month LIBOR. The senior and subordinate notes were purchased at an original issue discount (OID) of approximately $3,883 and $454, respectively. Unamortized debt issuance costs and OID associated with the refinance was approximately $1,437 and $0 and $4,320 and $0, respectively, as of September 30, 2016 and 2015.

(in thousands)

NOTE 5 - Long-Term Debt (cont.)

The Company's outstanding balance of long-term debt by issue and type of security, and current interest rates consisted of the following as of September 30, 2016 and 2015:

LIBOR Notes	Final Maturity	2016	2015	2016 Current Interest Rate
Series 2004-2A-3	7/30/2018	$ 96,707	243,477	0.91%
Series 2004-2A-4	7/28/2021	249,500	249,500	0.97
Series 2005-1A-2	7/28/2027	20,800	59,900	0.87
Series 2005-1A-3	10/30/2030	227,900	227,900	0.91
Series 2005-1A-4	4/28/2032	210,700	210,700	0.97
Series 2006A-A4	8/28/2035	165,506	202,748	1.18
Series 2006A-B	11/28/2035	31,550	38,649	1.38
Series 2007-1A-1	4/28/2030	193,000	193,000	0.84
Series 2012-1A-1	12/26/2031	333,459	426,616	1.23
Series 2012-1B-1	1/25/2032	210	2,579	5.71
Series 2016-A	5/27/2036	86,000	-	1.86
Series 2016-B	10/26/2037	4,000	-	2.11
Total LIBOR Notes		$ 1,619,332	$ 1,855,069	

Reset Rate Notes	Final Maturity	2016	2015	2016 Current Interest Rate
Series 2005-1A-5	10/30/2045	$ 67,342	$ 67,342	1.49%
Series 2007-1A-2	1/29/2046	200,000	200,000	1.49
Series 2007-1A-3	1/29/2046	235,000	235,000	1.49
Total Reset Rate Notes		$ 502,342	$ 502,342	

Auction Rate Notes	Final Maturity	2016	2015	2016 Current Interest Rate
Series 2000-B	11/1/2040	$ 9,500	$ 9,500	1.87%
Series 2002-A	4/1/2042	233,500	233,500	1.82-2.50
Series 2002-B	4/1/2042	37,000	37,000	2.72
Series 2004-1B	12/1/2044	30,000	30,000	1.52
Series 2004-2B	12/28/2044	25,500	25,500	1.77
Series 2005-1B	10/30/2045	20,000	20,000	1.77
Series 2007-1A	1/29/2046	410,150	410,150	1.77-1.98
Series 2007-1B	1/28/2047	32,200	32,200	1.77
Total Auction Rate Notes		$ 797,850	$ 797,850	

(in thousands)

NOTE 5 - Long-Term Debt (cont.)

Loan Participation Promissory Notes	Final Maturity	2016	2015	2016 Current Interest Rate
Series 2011-A-L	10/25/2034	$ -	$ 11,775	N/A

Adjustable Rate Revenue Bonds	Final Maturity	2016	2015	2016 Current Interest Rate
Series 2012A	10/1/2042	$ -	$ 69,319	N/A
Total Long-Term Debt		$ 2,919,524	$ 3,236,355	

Pursuant to trust indentures and agreements associated with the specific issues, the Company is required, among other things, to maintain certain financial covenants and ratios.

NOTE 6 - Significant Risks and Concentrations

The Company's business is primarily focused on helping students obtain an affordable education, managing its portfolio of federal and private student loans, and overseeing its financings to maximize the T.H.E. Bonus paid to its student borrowers. Because of the Company's concentration in one industry, it is exposed to credit, legislative, operational, regulatory and liquidity risks associated with the student loan industry.

As of September 30, 2016, the Company's portfolio of student loans was comprised of approximately 90% federal and 10% private student loans. The Company's private loans are unsecured. The government subsidized loans are substantially guaranteed. As a result of legislation changes in 2010 (see Note 1), all federal loans are now made through the DSLP. The terms and conditions of the Company's FFELP loans were not affected by this legislation. However, Congress and its Administration still exercise significant authority over the servicing and administration of existing FFELP loans. Because of the ongoing uncertainty around efforts to reduce the federal budget deficit, the timing, method and manner of implementation of various education lending initiatives has become less predictable. This, and general economic conditions may impact the Company's ability to collect loans and interest from students.

The Company receives periodic payments from its primary contract loan servicer. These amounts are generally unsecured from the time student loan payments are received by the contract loan servicer until the time they are remitted to the Company.

(in thousands)

NOTE 7 - Fair Value of Financial Instruments

As of September 30, 2016 and 2015, estimated fair values of the Company's financial instruments were as follows:

	2016		2015	
	Carrying Amounts	Estimated Fair Value	Carrying Amounts	Estimated Fair Value
Financial assets				
Cash and cash equivalents	$ 17,142	$ 17,142	$ 8,324	$ 8,324
Student loans, net	2,901,240	2,901,240	3,287,674	3,287,674
Interest receivable	32,995	32,995	39,652	39,652
Servicer receivable	2,009	2,009	2,702	2,702
Restricted cash and cash equivalents	158,643	158,643	114,083	114,083
Financial liabilities				
Accounts payable and accrued liabilities	7,236	7,236	6,568	6,568
T.H.E. repayment bonus liability	32,845	32,845	5,717	5,717
Government payable	5,405	5,405	8,249	8,249
Long-term debt	2,919,524	2,731,204	3,236,355	3,001,396

The following methods and assumptions are used by the Company in estimating the fair value of its financial instruments:

Cash and cash equivalents: The carrying amount of cash and cash equivalents is a reasonable estimate of fair value.

Student loans: Because there is currently no transparency to the secondary market for student loans with characteristics similar to NEF's, it is not reasonably practical to determine the fair value of this portfolio. Because of the high level of credit quality of the portfolio as a whole and the current weighted average yield, it is most likely that, if sold, the portfolio would be valued at a modest premium, offset by the costs necessary to execute the transfer of this portfolio. Accordingly, for purposes of this disclosure, amortized cost is believed to approximate fair value.

Interest receivable: The carrying amount approximates fair value due to the short maturity of this instrument and the Company's experience in collecting this receivable.

Servicer receivable: The carrying amount approximates fair value due to the short maturity of this instrument and the Company's experience in collecting this receivable.

Restricted cash and cash equivalents: The carrying amount of restricted cash and cash equivalents is a reasonable estimate of fair value.

Accounts payable and accrued liabilities: The carrying amount approximates fair value due to the short maturity of these instruments and the Company's experience in paying these liabilities.

T.H.E. repayment bonus liability: The carrying amount of this liability is considered a reasonable estimate of the fair value based on the Company's experience in paying this liability.

NOTE 7 - Fair Value of Financial Instruments (cont.)

Government payable: The carrying amount approximates fair value due to the short maturity of this instrument and the Company's experience in paying this liability.

Long-term debt: The estimate of fair value of long-term debt is based on market valuation data.

NOTE 8 - Commitments and Contingencies

Asserted claims

T.H.E. Repayment Bonus Suspension Litigation

In May 2010, the Company entered into a Class Action Settlement (the "Settlement") regarding its T.H.E. repayment bonus benefit. The provision of the Settlement included a requirement that the Company guarantee a minimum distribution of bonus benefit payments to Settlement class members totaling $1,250 each year for five years after the effective date of the Settlement. The Company made its final payment under these minimum guaranteed payment obligations in the second quarter of fiscal year 2015. Additional provisions of the Settlement included a requirement that the Company pay class counsel guaranteed and non-guaranteed attorneys' fees totaling $1,970 and $2,500, respectively, over several years. In May 2014, the guaranteed attorney fees had been paid in full and in October 2015, the Company made the final payment on the non-guaranteed fees. In addition to the requirements described above, the core Settlement benefit was a requirement that the Company reinstate its T.H.E. repayment bonus as a guaranteed benefit to eligible borrowers, and that the funding source remain as excess cash releases from the Company's financings which allow such releases, subject to meeting certain terms and conditions pursuant to financing covenants.

During fiscal years ended September 30, 2016 and 2015, the Company met specific terms and conditions for releasing excess cash from two of its trusts. As a result and pursuant to Settlement provisions, the Company incurred commitments to make ninety percent of these funds available for making bonus distributions to eligible borrower accounts to reduce the amount of interest due on their loans, net of amounts due to class counsel for litigation fees. During the year ended September 30, 2015, the Company paid the remaining non-guaranteed attorney fees of approximately $76 to class counsel based on excess cash releases made during the period, and after paying these fees, made approximately $8,019 of bonus distributions to all eligible borrower accounts. During the year ended September 30, 2016, the Company made approximately $22,759 of bonus distributions to all eligible borrower accounts.

NOTE 9 - Subsequent Events

Management has evaluated subsequent events through December 14, 2016, the date which the consolidated financial statements were available to be issued. No subsequent events or transactions have occurred requiring adjustments to or disclosures in the consolidated financial statements.