

OFFERING MEMORANDUM

TOTAL

**\$110,000,000**

**NorthStar Guarantee, Inc., Division B**

HIGHER

**Student Loan Asset-Backed Notes**

consisting of

**\$50,250,000 Auction Rate Student Loan Asset-Backed Notes, Senior Series 2000A-1**

**\$50,250,000 Auction Rate Student Loan Asset-Backed Notes, Senior Series 2000A-2**  
and

**\$9,500,000 Auction Rate Student Loan Asset-Backed Notes, Subordinate Series 2000B**

Price: 100%

Dated: Date of Delivery

Due: November 1, 2040

NorthStar Guarantee, Inc., Division B, a Minnesota nonprofit corporation ("NorthStar"), is offering \$110,000,000 aggregate principal amount of its Student Loan Asset-Backed Notes (the "Series 2000 Notes"). The Series 2000 Notes will be issued as Auction Rate Certificates – ARCs<sup>(6)</sup> ("ARCs").

Prospective investors in the Series 2000 Notes should consider the discussion of certain material factors set forth under "Risk Factors" in this Offering Memorandum.

**THE SERIES 2000 NOTES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939 IN RELIANCE UPON CERTAIN EXEMPTIONS SET FORTH IN SUCH ACTS. THE SERIES 2000 NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION, NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The Series 2000 Notes will represent limited obligations of NorthStar, payable solely from the Trust Estate created under the Indenture and described herein. The Series 2000 Notes are not insured or guaranteed by any government agency or instrumentality, by any affiliate of NorthStar, by any insurance company or by any other person or entity. The Holders will have recourse to the Trust Estate pursuant to the Indenture, but will not have recourse to any other assets of NorthStar.

The Series 2000 Notes are offered by the Underwriter subject to prior sale, when, as and if issued and received by the Underwriter. The Underwriter reserves the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that delivery of the Series 2000 Notes will be made in book-entry-only form through The Depository Trust Company on or about November 10, 2000.

**PaineWebber Incorporated**

The date of this Offering Memorandum is November 2, 2000.

<sup>(6)</sup> ARCs is a registered trademark of PaineWebber Incorporated

The Underwriter has provided the following sentence for inclusion in this Offering Memorandum. The Underwriter has reviewed the information in this Offering Memorandum in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. This Offering Memorandum is submitted in connection with the sale of securities as referred to herein and may not be used, in whole or in part, for any other purpose. The delivery of this Offering Memorandum at any time does not imply that information herein is correct as of any time subsequent to its date.

No dealer, broker, salesman or other person has been authorized by NorthStar or the Underwriter to give any information or make any representations, other than those contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by any of the foregoing. This Offering Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of, the Series 2000 Notes by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. This Offering Memorandum is NorthStar's Offering Memorandum, and the information set forth herein has been obtained from NorthStar and other sources which are believed to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of NorthStar.

**IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF NORTHSTAR AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISK INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

The Series 2000 Notes have not been registered with the State of Florida.

The Series 2000 Notes are to be issued in three series of Auction Rate Certificates ("ARCs") designated as Auction Rate Student Loan Asset-Backed Notes, Senior Series 2000A-1 (the "Series 2000A-1 Notes"), Senior Series 2000A-2 (the "Series 2000A-2 Notes" and, together with the Series 2000A-1 Notes, the "Series 2000 Senior Notes") and Auction Rate Student Loan Asset-Backed Notes, Subordinate Series 2000B (the "Series 2000 Subordinate Notes" or the "Series 2000B Notes"). See "Description of Series 2000 Notes."

The rights of the holders of the Series 2000 Subordinate Notes to receive payments and to direct remedies upon default will be subordinated to such rights of the holders of the Series 2000 Senior Notes and any other Senior Beneficiaries to the extent described in this Offering Memorandum. See "Source of Payment and Security for the Notes—Priorities."

The Series 2000 Notes will be issued pursuant to an Indenture of Trust dated as of November 1, 2000 (as amended and supplemented from time to time, the "Indenture") from

NorthStar and Firststar Bank, National Association, as eligible lender trustee, to Firststar Bank, National Association, as indenture trustee (together with any successor and any other corporation which may be substituted in its place pursuant to the Indenture, the “Trustee”), and a First Supplemental Indenture of Trust dated as of November 1, 2000 (the “First Supplemental Indenture”) between NorthStar and the Trustee. The Series 2000 Notes will be payable from and secured by: (i) Financed Student Loans, including FFELP Loans and Alternative Loans (all of which are loans for post-secondary education, bar preparation expenses or medical residency expenses acquired or originated with moneys held under the Indenture) and moneys received with respect to those loans after the applicable date of acquisition or origination; (ii) funds on deposit in certain trust funds and accounts held under the Indenture (including investment earnings thereon); and (iii) rights of NorthStar in and to certain agreements, including any Servicing Agreement, Repurchase Agreement, the Eligible Lender Trust Agreement, and the Guarantee Agreements, as the same relate to Financed Student Loans (as more specifically described herein, the “Trust Estate”). See “Summary of Terms—Trust Estate Assets” and “Source of Payment and Security for the Notes—General.” At the time of acquisition or origination from moneys held under the Indenture, Student Loans are required to meet certain eligibility criteria described herein, and upon acquisition or origination such Student Loans are referred to as “Financed Eligible Loans.” See “Glossary of Certain Defined Terms.”

**The Series 2000 Notes are subject to mandatory and optional redemption as more fully described herein. See “Description of Series 2000 Notes.”**

The Series 2000 Notes of each series will be issued in the respective principal amounts set forth in the table below, and will bear interest at the respective Initial Interest Rate, during the respective Initial Interest Periods, being the periods from the Date of Issuance to, but not including, the respective Initial Interest Rate Adjustment Dates set forth in the table below:

<u>Series</u>	<u>Aggregate Principal Amount</u>	<u>Initial Interest Rate Adjustment Dates</u>	<u>Length of Auction Periods</u>
2000A-1	\$50,250,000	December 12, 2000	28 days
2000A-2	50,250,000	December 19, 2000	28 days
2000B	9,500,000	December 12, 2000	28 days

The Initial Interest Rates for the Series 2000 Notes, will be as set forth in the Indenture. After the Initial Interest Periods, interest on each series of the Series 2000 Notes will accrue for each Auction Period at the Auction Rate with respect thereto, determined from time to time pursuant to the applicable Auction Procedures described herein. Initially, each Auction Period will generally be the respective number of days set forth in the table above, subject to adjustment as provided herein. Interest on the Series 2000 Notes will be paid on the first Business Day following the expiration of each respective Auction Period. The Series 2000 Notes will mature November 1, 2040. See “Description of Series 2000 Notes.”

The purpose of the Auction Procedures is to set the interest rates on the Series 2000 Notes. By purchasing Series 2000 Notes, whether in an Auction or otherwise, each purchaser will be deemed to have agreed: (i) to participate in Auctions on the terms described herein, and (ii) so long as the beneficial ownership of the Series 2000 Notes is maintained in book-entry

form, to sell, transfer or otherwise dispose of the Series 2000 Notes only pursuant to a bid or a sell order in an Auction, or to or through a specified broker-dealer (initially, PaineWebber Incorporated); provided, that in the case of any transfer other than one pursuant to an Auction, either the owner of the Series 2000 Notes so transferred, its participant or a specified broker-dealer advises the Auction Agent of such transfer. Broker-Dealer fees (which are based on the Broker-Dealer fee rate specified in the Indenture) are paid by the Auction Agent from moneys furnished to it by NorthStar or the Trustee from amounts available therefor under the Indenture. Noteholders do not pay additional fees and commissions in disposing of Series 2000 Notes pursuant to the Auction Procedures. See “Auction of the Series 2000 Notes.”

The Indenture authorizes the issuance of other Notes (“Additional Notes”) in the future, which Additional Notes may be issued on a parity basis with the Series 2000 Senior Notes or on a parity basis with the Series 2000 Subordinate Notes, or on a basis subordinate thereto. See “Source of Payment and Security for the Notes—Priorities” and “Description of the Indenture—Notes and Other Indenture Obligations.” The Series 2000 Notes and any Additional Notes are collectively referred to herein as the “Notes.”

**Certain persons participating in this offering may engage in transactions which stabilize, maintain or otherwise affect the price of the Series 2000 Notes, including over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids. See “Underwriting.”**

There is currently no secondary market for the Series 2000 Notes, and there is no assurance that one will develop. The Underwriter expects, but will not be obligated, to make a market in the Series 2000 Notes. There is no assurance that such a market will develop or, if such a market does develop, that such a market will continue. The Series 2000 Notes will not be listed on any national securities exchange or quoted on any inter-dealer quotation system.

It is a condition of issuance of the Series 2000 Notes that Moody’s Investors Service rate the Series 2000 Senior Notes “Aaa” and the Series 2000 Subordinate Notes “A2,” and Fitch, Inc. rate the Series 2000 Senior Notes “AAA” and the Series 2000 Subordinate Notes “A.” See “Ratings.”

The Series 2000 Notes may not be offered, sold, pledged or otherwise transferred to any person unless such person represents that either (a) it is not an employee benefit plan subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), a “Plan” described in Section 4975 of the Internal Revenue Code of 1986, as amended (the “Code”), an entity deemed to hold the assets of any such plan or a government plan subject to applicable law that is substantially similar to Section 406 of ERISA or Section 4975 of the Code or (b) its purchase of a Series 2000 Note will not result in a non-exempt prohibited transaction under section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, any substantially similar applicable law). Each purchaser or transferee of a Series 2000 Note shall be deemed to have represented that it meets the foregoing requirements.



## **SUMMARY OF TERMS**

**This summary highlights selected information from this document and does not contain all of the information you need to make your investment decision. To understand all of the terms of this offering, read this entire document.**

### **NORTHSTAR**

NorthStar Guarantee, Inc., Division B (“NorthStar”), a Minnesota nonprofit corporation, will issue the Series 2000 Notes and acquire or originate student loans with the proceeds. NorthStar has received an Internal Revenue Service determination that it is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. NorthStar’s principal place of business is located at 444 Cedar Street, Suite 550, St. Paul, Minnesota 55101-2133, and its phone number is (888) 843-0004. NorthStar has a web site on the world wide web at [www.northstar.org](http://www.northstar.org). Information found on the web site is not part of this Offering Memorandum.

### **NORTHSTAR REORGANIZATION AND ANTICIPATED ASSIGNMENT**

NorthStar has formed another nonprofit corporation known as NorthStar Education Finance, Inc., a Delaware nonstock nonprofit corporation (“NEF”). NEF has applied for a 501(c)(3) designation from the Internal Revenue Service. If and when this is received, NorthStar intends to transfer substantially all of its assets and liabilities, including those associated with the notes issued under the indenture, to NEF, subject to meeting the requirements of the indenture. Upon assumption by NEF, NorthStar will no longer have any further liability with respect to the notes. See “THE NORTHSTAR COMPANIES—Recent Corporate Restructuring” and “Description of the Indenture—Covenants—Continuing Existence; Merger and Consolidation.”

### **THE SERVICER**

Great Lakes Higher Education Servicing Corporation (“GLHESC”) and Great Lakes Educational Loan Services, Inc. (“GLELSI”) will initially be the servicer of the student loans acquired by NorthStar with proceeds of the Series 2000 Notes. NorthStar may replace the servicer with one or more new servicers, or may add one or more additional servicers.

### **THE TRUSTEE**

Firststar Bank, National Association will be the trustee under the indenture, as well as the eligible lender trustee for purposes of holding legal title to all FFELP loans.

### **TRUST ESTATE ASSETS**

The assets that secure the Series 2000 Notes will consist of:

- a portfolio of loans to be acquired by NorthStar on the closing date, which had an aggregate principal balance as of September 30, 2000 of approximately \$99,063,059;
- loans to be acquired or originated with proceeds of any future series of notes and other available moneys under the indenture; and
- the moneys and investment securities in the reserve fund, the alternative loan loss reserve fund and the other funds and accounts under the indenture.

NorthStar will acquire the initial portfolio of loans from NorthStar T.H.E. Funding, L.L.C., a Delaware limited liability company (“T.H.E. Funding”) of which NorthStar is the sole member, acting through Firststar Bank, National Association, as eligible lender trustee. The initial portfolio, as well as loans originated or acquired in the future, are expected to include loans made under the NorthStar Loan Program, which includes its Total Higher Education

(T.H.E.) Loan Programs, Voyager Loan Program and NorthStar Select Program. In the future, FFELP loans are expected to be originated by either NorthStar until the transfer of its program to NEF, and by NEF thereafter, or by another NorthStar or NEF affiliate, acting through its eligible lender trustee. Alternative Loans are expected to be acquired from University National Bank, the originating lender for the program, or from other sources.

## **FFELP LOANS**

As of September 30, 2000, approximately 80% in aggregate principal amount of the initial student loans expected to be acquired with proceeds of the Series 2000 Notes are FFELP loans. The percentage of FFELP loans in the portfolio could change in the future. Third party guarantee agencies guarantee the payment of 98% of the principal amount of FFELP loans plus interest on the FFELP loans. Great Lakes Higher Education Guaranty Corporation ("GLHEGC") provides a guarantee for the initial portfolio of FFELP loans. These loans are partially reinsured by the federal government. The Indenture permits FFELP loans to be guaranteed by any Guarantee Agency under the Higher Education Act. See "The Financed Student Loans," "Description of the FFEL Program" and "Description of the Guarantee Agencies."

## **ALTERNATIVE LOANS**

As of September 30, 2000, approximately 20% in aggregate principal amount of the initial student loans expected to be acquired with the proceeds of the Series 2000 Notes are Alternative Loans, which are unsecured loans. The percentage of Alternative Loans in the portfolio could change in the future. Alternative Loans are not made under the FFEL Program and are not presently anticipated to be guaranteed by any third party. See "The Financed Student Loans" and "Description of Alternative Loans."

## **DATE OF ISSUANCE**

Issuance of the Series 2000 Notes is scheduled for November 10, 2000.

## **SECURITIES OFFERED**

The Series 2000 Notes are to be issued in three series of Auction Rate Certificates (ARCs) designated as Auction Rate Student Loan Asset-Backed Notes, Senior Series 2000A-1 and Senior Series 2000A-2 and Auction Rate Student Loan Asset-Backed Notes, Subordinate Series 2000B. See "Description of Series 2000 Notes."

The original principal amounts of each series of the Series 2000 Notes are listed below:

<u>Series</u>	<u>Principal Amount</u>
2000A-1	\$50,250,000
2000A-2	50,250,000
2000B	9,500,000

The Series 2000 Subordinate Notes are subordinated in certain respects to the Series 2000 Senior Notes and any other Senior Obligations, as more fully described herein. The Series 2000 Notes will be issued pursuant to the Indenture as hereinafter described.

## **INTEREST**

### *Initial Interest Rates and Initial Interest Periods*

The Series 2000 Notes of each series will bear interest to the respective initial interest rate adjustment dates shown below at rates to be determined prior to the issuance of the Notes:

<u>Series</u>	<u>Initial Interest Rate Adjustment Date</u>
2000A-1	December 12, 2000
2000A-2	December 19, 2000
2000B	December 12, 2000

#### *Subsequent Interest Rates and Interest Periods*

After the initial interest periods, each interest period for the Series 2000 Notes will generally consist of 28 days, subject in each case to adjustment as described herein. See "Auction of the Series 2000 Notes—Changes in Auction Terms—Changes in Auction Period or Periods." The interest rates for the Series 2000 Notes will be reset at the auction rates pursuant to the auction procedures described in "Auction of the Series 2000 Notes—Auction Procedures" (but in no event exceeding the lesser of the maximum auction rate or the maximum interest rate, as described herein). See "Auction Procedures" below. Interest on each series of Series 2000 Notes will be payable on the first business day following the expiration of each auction period for that series, to the registered owners thereof as of the business day next preceding each auction date.

#### *Auction Procedures*

The following summarizes certain procedures that will be used in determining the interest rates on the Series 2000 Notes. See "Auction of the Series 2000 Notes—Auction Procedures" for a more detailed description of these procedures.

The interest rate on each series of Series 2000 Notes will be determined periodically (generally, for periods ranging from 7 days to one year, and initially 28 days for the Series 2000 Notes) by means of an auction. In this auction, investors and potential investors submit orders through an eligible broker-dealer as to the principal amount of Series 2000 Notes such investors wish to buy, hold or sell at various interest rates. The broker-dealer submits its clients' orders to the auction agent, who processes all orders submitted by the broker-dealer and determines the interest rate for the upcoming interest period. The broker-dealer is notified by the auction agent of the interest rate for the upcoming interest period and are provided with settlement instructions relating to purchases and sales of Series 2000 Notes.

#### *The Maximum Rate*

The interest rate cannot exceed the maximum rate, which is equal to the lesser of the maximum auction rate or the maximum interest rate. The maximum auction rate is generally a per annum rate based upon a spread over the ninety-one day United States Treasury bill rate, with the spread being dependent upon the rating on the notes at the time of determination. This is subject to adjustment with a confirmation from the rating agency that such adjustment will not adversely affect the ratings on any of the notes. The maximum interest rate is the lesser of (i) 18% or such higher rate as will not adversely affect the ratings on any of the notes or (ii) the maximum rate of interest permitted by the law.

#### *Interest Rate Information*

You may obtain the applicable interest rates by telephone from the Trustee at (513) 762-8870.

## **PRINCIPAL**

#### *Stated Maturity Dates*

The stated maturity date of all series of the Series 2000 Notes is November 1, 2040.

### *Mandatory Redemption*

The Series 2000 Notes of any series are subject to mandatory redemption on any interest payment date from revenues deposited to the retirement account to the extent directed by NorthStar which are in excess of amounts necessary to pay or provide for the payment of various program operating expenses and related costs, interest on and regularly scheduled principal of the notes and any other obligations payable from the debt service fund, and reserve fund deficiencies. The redemption price will be 100% of the principal amount of such Series 2000 Notes to be prepaid, plus accrued interest thereon to the redemption date.

The first supplemental indenture provides that future series of notes or portions thereof may be designated for redemption or principal distribution before such principal repayments are applied to the redemption of the Series 2000 Notes.

### *Optional Redemption*

At NorthStar's option, Series 2000 Notes of any series may be redeemed on any regularly scheduled interest payment date for such series, in whole or in part, at a redemption price of 100% of the principal amount of such Notes to be redeemed, plus accrued interest thereon to the redemption date.

### *Selection of Series 2000 Notes for Redemption*

If less than all outstanding Series 2000 Notes are to be redeemed, the particular series to be redeemed will be determined by NorthStar. If less than all outstanding Series 2000 Notes of a given series are to be redeemed, the particular Series 2000 Notes to be redeemed will be determined by lot. See "Description of Series 2000 Notes—Selection of Series 2000 Notes for Redemption."

### *Limitation on Redemption of Series 2000 Subordinate Notes*

Series 2000 Subordinate Notes that are otherwise subject to optional or mandatory redemption will only be redeemed if, as of the date of selection of Series 2000 Notes for redemption and after giving effect to such redemption, while Senior Notes are outstanding, the senior asset percentage will be at least equal to 105%, and the subordinate asset percentage will be at least equal to 100.5%.

The senior asset percentage is the ratio (expressed as a percentage) of:

- the value of the assets in the trust estate, less accrued interest and fees with respect to all senior indenture obligations, to
- the principal amount of senior notes outstanding.

The subordinate asset percentage is the ratio (expressed as a percentage) of:

- the value of the assets in the trust estate, less accrued interest and fees with respect to all senior and subordinate indenture obligations, to
- the principal amount of all notes outstanding.

## **PRIORITY OF PAYMENTS**

### *Generally*

On each monthly calculation date, amounts available in the collection fund as of the end of the prior month will be applied generally in the following priority (for more detail, see "Description of the Indenture--Funds and Accounts");

- first, to make any payments required under a Joint Sharing Agreement;
- second, to make any payments due and payable by NorthStar to the U.S. Department of Education related to the Financed Eligible Loans;
- third, to the administration fund, the amount necessary to pay or provide for administrative and servicing fees and expenses for the next month;
- fourth, to the debt service fund, the amount necessary to provide for the payment of interest coming due during the next month on the Series 2000 Senior Notes and any other series of senior notes at the time outstanding and the payment of any other senior obligations under the indenture;
- fifth, to the debt service fund the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption), an amount equal to 1/12 of such principal coming due within the next twelve months on the Series 2000 Senior Notes and any other series of senior notes at the time outstanding (there being no such deposits required with respect to Series 2000 Senior Notes until November 25, 2039);
- sixth, to the debt service fund, the amount necessary to provide for the payment of interest coming due during the next month on the Series 2000 Subordinate Notes and any other series of subordinate notes at the time outstanding and the payment of any other subordinate obligations under the indenture;
- seventh, to the debt service fund the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption), an amount equal to 1/12 of such principal coming due within the next twelve months on the Series 2000 Subordinate Notes and any other series of subordinate notes at the time outstanding (there being no such deposits required with respect to Series 2000 Subordinate Notes until November 25, 2039);
- eighth, to the reserve fund, the amount necessary to reach its required balance;
- ninth, to the debt service fund, the amount necessary to provide for the payment of interest on junior subordinate notes;
- tenth, to the debt service fund, the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption), an amount equal to 1/12 of such principal coming due within the next twelve months on any junior subordinate notes at the time outstanding);
- eleventh, to NorthStar, the T.H.E Bonus Deposit, in an amount equal to 130 basis points per annum multiplied by the principal amount of the Financed Student Loans in repayment (and not delinquent by more than 60 days, through dates specified in the indenture, as extended or amended as provided by a Rating Agency Condition);
- twelfth, during the revolving period and at the direction of NorthStar, to the acquisition fund to acquire or originate additional student loans;
- thirteenth, only at the direction of NorthStar, to the retirement account for the redemption of, or distribution of principal with respect to notes which by their terms are subject to mandatory or optional redemption or principal distribution from revenues received under the indenture (such amounts to be applied to the payment of notes of a particular series based upon the priorities established in the supplemental indentures pursuant to which the notes are issued);
- fourteenth, to the debt service fund, the amounts necessary to pay carry-over amounts, together with interest thereon (with respect to senior notes);

- fifteenth, to the debt service fund, except as described below under (“Suspension of Payments on Subordinate Obligations”), the amount necessary for the payment of carry-over amounts and interest thereon with respect to subordinate notes;
- sixteenth, to the debt service fund, except as described below under (“Suspension of Payments on Subordinate Obligations”), the amount necessary for the payment of carry-over amounts and interest thereon with respect to junior subordinate notes;
- seventeenth, to the credit of the debt service fund the amount necessary for the payment of termination payments due under senior swap agreements as a result of swap counterparty default;
- eighteenth, to the credit of the debt service fund the amount necessary for payment of termination payments due under subordinate swap agreements as a result of swap counterparty default; and
- nineteenth, to the surplus fund.

#### *Suspension of Payment on Subordinate Obligations*

As long as any Series 2000 Senior Notes, any other senior notes, any Series 2000 Subordinate Notes or any other subordinate notes remain outstanding, the above payment order will be modified if, after giving effect to the payments on any payment date, either:

- the senior asset percentage would be less than 100% (in which event no carry-over amount will be paid with respect to subordinate notes or junior subordinate notes);
- the subordinate asset percentage would be less than 100% (in which event no carry-over amount will be paid with respect to junior subordinate notes); and
- a payment event of default has occurred under the indenture (in which event amounts will be applied as provided in the indenture with respect to events of default).

Any such deferral of payments on the Series 2000 Subordinate Notes or any junior subordinate notes will not constitute an event of default under the indenture.

#### *Priority and Timing of Payments*

The subordination of the Series 2000 Subordinate Notes and any other obligations subordinate to the Series 2000 Senior Notes generally relates only to rights to direct remedies and to receive payments in the event that revenues from the trust estate are not sufficient to make all payments due on indenture obligations or that the circumstances described above under “Suspension of Payments on Subordinate Obligations” have occurred. Principal and interest payments on subordinate notes will continue to be made on their payment dates (which may precede payment dates for senior notes), as long as the conditions in the indenture to the payment of those amounts continue to be met. In addition, revenues available to prepay notes may be applied first to subordinate notes, as long as the conditions in the indenture to the payment of those amounts continue to be met. In particular, the revenues available for the redemption of Series 2000 Notes may be applied first to the Series 2000 Subordinate Notes and then to the Series 2000 Senior Notes, unless redemption of the Series 2000 Subordinate Notes would be prohibited under the indenture as described under “Description of Series 2000 Notes—Senior Asset Requirement.” See “Source of Payment and Security for the Notes—Priorities” and “Description of the Indenture—Funds and Accounts.”

#### *Revolving Period*

Prior to the termination of the revolving period, revenues that otherwise would be required to be used to redeem or make principal distributions with respect to notes may instead, at the direction of NorthStar, be transferred to the

acquisition fund and used to acquire or originate additional eligible student loans. The revolving period will terminate on October 1, 2002 or such other date as NorthStar may determine, upon confirmation from the rating agencies that the ratings of the notes will not be reduced or withdrawn as a result.

## **RESERVE FUND**

\$1,100,000 of the proceeds of the Series 2000 Notes will be deposited into a reserve fund for the notes. This initial deposit will be supplemented monthly, if necessary, to increase the amount therein to the required balance, and otherwise upon the issuance of any new series of notes to the extent provided in a supplemental indenture. The required balance will initially be the greater of one percent of the outstanding principal amount of the notes or \$500,000. Thus, the amount in the reserve fund may be reduced in connection with the reduction of the outstanding principal amount of notes. See "Description of the Indenture—Funds and Accounts—Reserve Fund."

## **ALTERNATIVE LOAN LOSS RESERVE FUND**

\$789,241, which is an amount equal to 4% of the principal of the Alternative Loans expected to be acquired with the proceeds of the Series 2000 Notes on the closing date, will be deposited by NorthStar from the net proceeds of the sale of the Series 2000 Notes into an alternative loan loss reserve fund. This initial deposit will be supplemented, if additional Alternative Loans are made or acquired by NorthStar from moneys held under the indenture, from amounts on deposit in the acquisition fund equal to 4% of the principal of such Alternative Loans or such other percentages as may be permitted with a rating agency condition. To the extent funds are available in the alternative loan loss reserve fund, anytime an Alternative Loan becomes more than 180 days delinquent (and if such Alternative Loan has not previously been more than 180 days delinquent), an amount equal to the principal and interest on the loan will be transferred to the collection fund from the alternative loan loss reserve fund as if principal and interest had been paid on the loan.

## **PARITY OBLIGATIONS**

The Series 2000 Notes will be issued under the indenture. Additional notes and other obligations may be issued under the indenture which have the same right to payment from the trust estate as the Series 2000 Senior Notes or which have the same right to such payment as the Series 2000 Subordinate Notes.

The Series 2000 Senior Notes constitute "senior obligations" under the indenture, secured on a basis which is on a parity with any other senior obligations and which is superior to the Series 2000 Subordinate Notes and any other subordinate obligations.

The Series 2000 Subordinate Notes constitute "subordinate obligations" under the indenture, secured on a basis which is on a parity with any other subordinate obligations and which is subordinate to the Series 2000 Senior Notes and any other senior obligations.

## **REGISTRATION, CLEARING AND SETTLEMENT**

You will hold your interest in the Series 2000 Notes through The Depository Trust Company. You will not be entitled to receive definitive certificates representing your interests in the Series 2000 Notes, except in certain limited circumstances. See "Description of Series 2000 Notes—Book Entry Registration."

## **AUTHORIZED DENOMINATIONS**

The Series 2000 Notes will be offered in denominations of \$50,000 and multiples thereof.

## **RATINGS**

The anticipated ratings on the Series 2000 Notes are as follows:

*Series 2000 Senior Notes*

**Moody's**  
Aaa

*Series 2000 Subordinate Notes*

**Moody's**  
A2

*Series 2000 Senior Notes*

**Fitch, Inc.**  
AAA

*Series 2000 Subordinate Notes*

**Fitch, Inc.**  
A

See "Risk Factors—Credit ratings only address a limited scope of your concerns."

## **INDENTURE**

The Series 2000 Notes are being issued pursuant to the indenture from NorthStar and the eligible lender trustee to the trustee, and the first supplemental indenture, and are payable solely from the funds and assets held under the indenture. NorthStar expects to issue additional series of notes in the future which also will be secured by the funds and assets held under the indenture.

## **FEDERAL INCOME TAX CONSEQUENCES**

In the opinion of Chapman and Cutler, the Series 2000 Notes will be characterized as debt obligations for federal income tax purposes. Interest paid or accrued on the Series 2000 Notes will be taxable to you.

By accepting your Series 2000 Note, you agree to treat your Series 2000 Note as a debt instrument for income tax purposes.

See "Federal Income Tax Consequences."

## **ERISA CONSIDERATIONS**

Subject to the considerations described in "ERISA Considerations" herein, the Series 2000 Notes may generally be purchased by employee benefit plans that are subject to ERISA, or Section 4975 of the Code, or persons using assets of such plans. However, any purchaser of Series 2000 Notes should consult its tax and/or legal advisors in determining whether all required conditions have been satisfied. See "ERISA Considerations."



## RISK FACTORS

You should consider the following risk factors in deciding whether to purchase the Series 2000 Notes.

**A secondary market for the Series 2000 Notes may not develop, which means you may have trouble selling them when you want.**

The underwriter may assist in resales of the Series 2000 Notes but it is not required to do so. A secondary market for the Series 2000 Notes may not develop. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow you to resell any of the Series 2000 Notes.

Furthermore, the auction procedures and transfer requirements described herein may limit the liquidity and marketability of Series 2000 Notes and therefore may not yield an owner the best possible price for a Series 2000 Note. The ratings of the Series 2000 Notes by the rating agencies will not address the market liquidity of such notes.

**Limited assets will be available to pay principal and interest, which could result in delays in payment or losses on the Series 2000 Notes.**

The Series 2000 Notes are obligations solely of NorthStar, and will not be insured or guaranteed by the originating lender, the servicer, the guarantee agencies, the trustee or any of their affiliates, or by the Department of Education. Moreover, NorthStar will have no obligation to make any of its assets available to pay principal or interest on the Series 2000 Notes, other than the student loans acquired with proceeds of the Notes and the other assets making up the trust estate. Noteholders must rely for repayment upon revenues realized from the student loans and other assets in the trust estate. See "Source of Payment and Security for the Notes."

**Failure by loan holders or servicers to comply with student loan origination and servicing procedures could cause delays in payment or losses on the Series 2000 Notes.**

The Higher Education Act requires loan holders and servicers to follow specified procedures to ensure that the FFELP loans are properly originated and serviced. Failure to follow these procedures may result in:

- The Department of Education's refusal to make reinsurance payments to the guarantee agencies or to make interest subsidy payments and special allowance payments to the trustee with respect to the FFELP loans; and
- The guarantee agencies' inability or refusal to make guarantee payments with respect to FFELP loans.

Loss of any of these payments may adversely affect NorthStar's ability to pay principal of and interest on the notes. See "The Financed Loans—Servicing and 'Due Diligence'" and "Description of the FFEL Program."

**The financial health of the loan guarantors could decline, which could affect the timing and amounts available for payment of the Series 2000 Notes.**

The student loans are not secured by any collateral of the borrowers. Payments of principal and interest are guaranteed by loan guarantors to the extent described herein. Excessive borrower defaults could impair a loan guarantor's ability to meet its guarantee obligations. The financial health of a loan guarantor could affect the timing and amount of available funds for any collection period and NorthStar's ability to pay principal of and interest on the Series 2000 Notes.

Although a holder of FFELP loans could submit claims for payment directly to the Department of Education pursuant to section 432(o) of the Higher Education Act if the Department of Education determines that a FFELP guarantee agency is unable to meet its insurance obligations, there is no assurance that the Department of Education would make such a determination or that it would pay claims in a timely manner. The trustee may receive claim payments on FFELP loans directly from the Department of Education under Section 432(o) if such a determination is made. See "Description of the FFEL Program" and "Description of the Guarantee Agencies."

**Subordinated Notes face a higher risk of delayed payments and losses.**

Interest and principal payments on a payment date for the Series 2000 Subordinate Notes (and any other subordinate notes) generally will be made only after each series of senior notes has received its interest and principal entitlement on that payment date. Consequently, subordinate notes will bear losses on the student loans prior to such losses being borne by the senior notes. In addition, holders of subordinate notes may be limited in the legal remedies that are available to them until the holders of the senior notes are paid in full. See “Source of Payment and Security for the Notes—Priorities” and “Description of the Indenture—Remedies.”

**Additional Notes may be issued without your consent, which could affect the composition of the outstanding Notes.**

NorthStar may, from time to time, issue additional notes or incur other obligations secured by the trust estate without the consent or approval of any existing noteholders. These notes or other obligations may be senior or subordinate to, or on a parity with, existing classes of notes in right of payment.

**If there is a problem with a loan that arose prior to its acquisition by NorthStar, the trust estate may incur losses on that loan unless NorthStar Capital Market Services, Inc. purchases it.**

The transfer of the student loans to NorthStar is without recourse against the transferor. Neither NorthStar nor the trustee will have any right to make recourse to or collect from the transferor if the student loans should fail to meet the requirements of an eligible loan for any reason or if the transfer should fail to provide the trustee with good title to the student loans.

NorthStar Capital Market Services, Inc. (“NCMS”), however, has agreed in a repurchase agreement in connection with its administration of student loans for NorthStar that NCMS will purchase student loans which cease to constitute eligible loans under the indenture due to actions taken or failed to be taken by owners of the student loans prior to their purchase by NorthStar. However, NCMS may not have the financial resources to purchase all such student loans. Further, this obligation will not cover any event causing the student loans to no longer constitute eligible loans arising after the sale of the student loan to NorthStar that was not caused by such action or failure to take such action.

The failure of NCMS to purchase a student loan would be a breach of the repurchase agreement, enforceable by the trustee, but is not an event of default, and would not permit the exercise of remedies, under the indenture.

**Offset by guarantee agencies or the Department of Education could reduce the amounts available for payment of the Series 2000 Notes.**

The eligible lender trustee will use a Department of Education lender identification number that could also be used for other FFELP loans held by the eligible lender trustee on behalf of NorthStar or the transferor. The billings submitted to the Department of Education would be consolidated with the billings for payments for all student loans held by the eligible lender trustee on behalf of NorthStar or the transferor, and payments on the billings will be made by the Department of Education or the guarantee agency to the eligible lender trustee in lump sum form. These payments will be allocated by the eligible lender trustee among the various FFELP loans held under the same lender identification number.

If the Department of Education or a guarantee agency determines that the eligible lender trustee owes a liability to the Department of Education or the guarantee agency on any FFELP loan for which the eligible lender trustee is legal titleholder, the Department of Education or the guarantee agency might seek to collect that liability by offsetting against payments due the eligible lender trustee under the indenture for the notes. This offsetting or shortfall of payments due to the eligible lender trustee could adversely affect the amount of available funds and NorthStar’s ability to pay interest and principal on the notes.

See “Description of the FFEL Program.”

**Borrowers of student loans are subject to a variety of factors that may adversely affect their repayment ability.**

Collections on the student loans during a monthly collection period may vary greatly in both timing and amount from the payments actually due on the student loans for that monthly collection period for a variety of economic, social and other factors.

Failures by borrowers to pay timely the principal and interest on their student loans or an increase in deferments or forbearances could affect the timing and amount of available funds for any monthly collection period and the ability to pay principal and interest on your notes. In addition, the financed student loans have been made to graduate and professional students, who generally have higher debt burdens than student loan borrowers as a whole. The effect of these factors, including the effect on the timing and amount of available funds for any monthly collection period and the ability to pay principal and interest on your notes is impossible to predict.

**The FFEL program could change, which could adversely affect the loans and the timing and amounts available for payment of the Series 2000 Notes.**

The Higher Education Act and other relevant federal or state laws may be amended or modified in the future. In particular, the level of guarantee payments may be adjusted from time to time. NorthStar cannot predict whether any changes will be adopted or, if so, what impact such changes may have on NorthStar or the Series 2000 Notes.

**Increased competition from other lenders and the Federal Direct Student Loan Program could adversely affect the availability of loans, the cost of servicing, the value of loans and prepayment expectations.**

The NorthStar Loan Program faces competition from other lenders that could decrease the volume of eligible loans that could be acquired by NorthStar. Additionally, the Higher Education Act provides for a Federal Direct Student Loan Program. This program could result in reductions in the volume of loans made under the FFEL program. Reduced volume in NorthStar's program in particular and in the FFEL program in general may cause a servicer to experience increased costs due to reduced economies of scale. These cost increases could reduce the ability of the servicer to satisfy its obligations to service the student loans. This could also reduce revenues received by the guarantee agencies available to pay claims on defaulted student loans. See "Description of the FFEL Program."

**Redemption of the Series 2000 Notes may create reinvestment risks.**

The proceeds of the Series 2000 Notes include amounts to be deposited in the collection fund and used to pay interest on the Series 2000 Notes. If those amounts are not needed for that purpose, they may be used to acquire student loans. If the amount used to pay interest on the notes and to acquire student loans is less than the full amount so funded, NorthStar may prepay principal on the notes, possibly including the Series 2000 Notes. See "Description of the Indenture—Funds and Accounts—Acquisition Fund."

Student loans may be prepaid by borrowers at any time without penalty. The rate of prepayments may be influenced by economic and other factors, such as interest rates, the availability of other financing and the general job market. In addition, under certain circumstances, NCMS may be obligated to purchase student loans from NorthStar pursuant to a purchase agreement if the student loans cease to constitute eligible loans under the Indenture due to actions taken or failed to be taken by owners of the student loans prior to their purchase by NorthStar. See "The Financed Student Loans—Acquisition of Initial Financed Student Loans."

The Department of Education has implemented a direct consolidation loan program which, together with consolidation loans made by lenders in the FFEL program, may result in prepayments of student loans. To the extent borrowers elect to borrow money through consolidation loans, or otherwise to prepay their loans, NorthStar may use repayments to prepay the Series 2000 Notes.

NorthStar also has the right to redeem your Series 2000 Note at any time, from any source, including through the issuance of refunding obligations.

If your Series 2000 Note is redeemed prior to its stated maturity, you may not be able to reinvest your funds at the same yield as the yield on the Series 2000 Notes. In addition, your yield may be reduced if you purchased your Series 2000 Note at a premium and the principal is paid sooner than you expected, or if you purchased your Series 2000 Note at a discount and the principal is paid later than you expected. NorthStar cannot predict the prepayment rate of any Series 2000 Notes, and reinvestment risks or reductions in yield resulting from prepayment will be borne entirely by you and the other holders.

**The interest rates on the Series 2000 Notes are subject to limitations, which could reduce your yield.**

The interest rate for the Series 2000 Notes will be based generally on the outcome of auctions of Series 2000 Notes. The student loans, however, generally bear interest at a rate based on U.S. Treasury bill rates plus a stated margin, and in some cases will also give rise to special allowance payments based on commercial paper rates, plus a stated margin.

The interest rates on the Series 2000 Notes generally will be limited by the maximum auction rate, which will be based in part on a spread over the U.S. Treasury bill rate dependent upon the ratings on the Series 2000 Notes. For an interest payment date on which the maximum rate, including the maximum auction rate, applies, the difference between the amount of interest at the rate described above and the amount of interest at the maximum rate will be paid on succeeding interest payment dates only to the extent of available funds, and may never be paid.

See "Description of Series 2000 Notes—Carry-Over Amounts on the Series 2000 Notes."

**The interest rates on NorthStar's investments may be insufficient to cover interest on the Series 2000 Notes.**

Unspent proceeds of the Series 2000 Notes and moneys in the funds and accounts under the indenture will be invested at fluctuating interest rates. There can be no assurance that the interest rates at which these proceeds and moneys are invested will equal or exceed the interest rates on the Series 2000 Notes.

**The principal amount of the Notes outstanding may exceed the principal amount of the assets in the trust estate, which could result in losses on the Series 2000 Notes if there was a liquidation.**

The principal amount of notes outstanding at any time may exceed the principal amount of student loans and other assets in the trust estate held by the trustee under the indenture. If an event of default occurs and the assets in the trust estate are liquidated, the student loans would have to be sold at a premium for the subordinated noteholders and possibly the senior noteholders to avoid a loss. NorthStar cannot predict the rate or timing of accelerated payments of principal or the occurrence of an Event of Default or when the aggregate principal amount of the notes may be reduced to the aggregate principal amount of the student loans.

Payment of principal and interest on the notes is dependent upon collections on the student loans. If the yield on the financed student loans does not generally exceed the interest rate on the notes and expenses relating to the servicing of the financed student loans and administration of the indenture, NorthStar may have insufficient funds to repay the notes.

**If the trustee is forced to sell loans after an event of default, there could be losses on the Series 2000 Notes.**

Generally, during an event of default, the trustee is authorized with certain noteholder consent to sell the student loans. However, the trustee may not find a purchaser for the student loans. Also, the market value of the student loans plus other assets in the trust estate might not equal the principal amount of notes plus accrued interest. The competition currently existing in the secondary market for loans made under the FFELP program also could be reduced, resulting in fewer potential buyers of the FFELP loans and lower prices available in the secondary market for those loans. In addition, the market for Alternative Loans is not as developed as the market for FFELP loans. There may be even fewer potential buyers for those loans, and therefore lower prices available in the secondary market. The noteholders may suffer a loss if the trustee is unable to find purchasers willing to pay sufficient prices for the student loans.

**Bankruptcy of NorthStar could result in accelerated prepayment on the Series 2000 Notes.**

The NorthStar Companies (NorthStar, T.H.E. Funding, NEF and NCMS) had a cumulative net deficit of \$354,000 as of August 30, 2000. Although the NorthStar Companies are paying their obligations as they become due and expect the cumulative net deficit to be reduced or eliminated as more student loans are originated by them or on their behalf, there can be no assurance that such cumulative net deficit will be reduced or eliminated. If NorthStar becomes bankrupt, the United States Bankruptcy Code could materially limit or prevent the enforcement of NorthStar's obligations, including its obligations under the Series 2000 Notes. NorthStar's trustee in bankruptcy or NorthStar itself as debtor-in-possession may seek to accelerate payment on the notes and liquidate the assets held under the indenture. If principal on the Series 2000 Notes is declared due and payable, you may lose the right to future payments and face reinvestment risks mentioned above. If the assets held under the indenture are liquidated, you may face the risks relating to the sale of the loan portfolio mentioned above.

**Other parties may have or may obtain a superior interest in loans.**

The servicer or a custodian will have custody of the original or a copy of the promissory notes related to the student loans, including where a FFELP loan has been made under a master promissory note retained by the lender. The student loan note may not be physically segregated in the servicer's or other custodian's offices. The Higher Education Act provides that a security interest in a FFELP loan may be perfected through taking possession of an original or copy of a master promissory note or by filing a uniform commercial code financing statement. A possible effect of this provision is that a party who has perfected a security interest by possession of a copy of a master promissory note may take priority over the trustee's security interest, even though the servicer has possession of the original or a copy of the promissory note. Moreover, there is no way to determine conclusively whether such a perfected security interest exists.

**Application of consumer protection laws to the loans may increase costs and uncertainties about the Alternative Loans.**

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

**Less than all of the holders can approve amendments to the indenture or waive defaults under the indenture.**

Under the indenture, holders of specified percentages of the aggregate principal amount of the notes may amend or supplement provisions of the indenture and the notes and waive events of defaults and compliance provisions without the consent of the other holders. You have no recourse if the holders vote and you disagree with the vote on these matters. The holders may vote in a manner which impairs the ability to pay principal and interest on your notes.

The holders of subordinate notes have no voting rights while any senior notes are outstanding. The holders of subordinate notes have no recourse if they disagree with the specified percentage of holders.

**The notes are not suitable investments for all investors.**

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

**Rating agency can permit certain actions to be taken without noteholder approval.**

The indenture provides that NorthStar and the trustee may undertake various actions based upon receipt by the trustee of confirmation from the rating agency that the outstanding ratings assigned by such rating agency to the notes are not thereby impaired. Such actions include, but are not limited to, amendments to the indenture, the issuance of additional notes and the execution by NorthStar of interest rate exchange agreements. To the extent such actions are taken after issuance of the Series 2000 Notes, investors in the Series 2000 Notes will be relying on the evaluation by the rating agency of such actions and their impact on credit quality.

**Book-entry registration may limit your ability to participate directly as a holder.**

The Series 2000 Notes will be represented by one or more certificates registered in the name of Cede & Co., the nominee for DTC, and will not be registered in your name. You will only be able to exercise the rights of Noteholders indirectly through DTC and its participating organizations. See "Description of Series 2000 Notes – Book-Entry Registration."

**Credit ratings only address a limited scope of your concerns.**

A rating agency will rate each series of the Series 2000 Notes. A rating is not a recommendation to buy or sell Series 2000 Notes or a comment concerning suitability for any investor. A rating only addresses the likelihood of the ultimate payment of principal and stated interest and does not address the likelihood of prepayments on the Series 2000 Notes or the likelihood of the payment of carry-over amounts. A rating may not remain in effect for the life of the Series 2000 Notes. See "Ratings."

**NorthStar may enter into swap agreements which could result in delays in payment or losses on the Series 2000 Notes if the counterparty fails to make its payments.**

Under the indenture, NorthStar may enter into interest rate swap agreements if certain requirements are met, including the requirement that the rating agency will not reduce or withdraw the ratings on any notes. Interest rate swap agreements carry risks relating to the credit quality of the counterparty and the enforceability of the swap agreement. See "Source of Payment and Security for the Notes – Additional Indenture Obligations."

## INTRODUCTION

This Offering Memorandum sets forth information concerning the issuance by NorthStar Guarantee, Inc., Division B, a Minnesota nonprofit corporation, of \$110,000,000 aggregate principal amount of its Student Loan Asset-Backed Notes, Senior Series 2000A-1, Senior Series 2000A-2 and Subordinate Series 2000B. The Series 2000 Notes will be issued as Auction Rate Certificates (ARCs). Information on the cover page hereof and under the headings "Summary of Terms" and "Risk Factors" is part of this Offering Memorandum. Capitalized terms used in this Offering Memorandum, and not otherwise defined herein, shall have the meanings assigned thereto under "Glossary of Certain Defined Terms."

*The Series 2000 Notes are limited obligations of NorthStar specifically secured by and payable solely from the Trust Estate created under the Indenture and described herein. The Series 2000 Notes do not represent general obligations of NorthStar. See "Source of Payment and Security for the Notes."*

This Offering Memorandum contains brief descriptions of the Series 2000 Notes, the Indenture, the First Supplemental Indenture authorizing the Series 2000 Notes, the student loans to be financed through the issuance of the Series 2000 Notes and other documents and laws. The descriptions and summaries herein do not purport to be comprehensive or definitive and reference is made to such documents and laws for the complete details of all terms and conditions. All statements herein are qualified in their entirety by reference to each such document or law. Copies of the Indenture and the First Supplemental Indenture may be obtained during the offering period upon request directed to the Trustee at Firststar Bank, National Association, 425 Walnut Street, Box 111-8, Cincinnati, Ohio 45201-1118, Attn: Corporate Trust Department.

## USE OF PROCEEDS

The proceeds from the sale of the Series 2000 Notes will be used as follows:

- \$106,120,259 will be deposited in the Acquisition Fund and used to acquire Student Loans (the "Initial Financed Student Loans") on the Date of Issuance;
- \$1,220,000 will be deposited in the Collection Fund and used to pay interest on the Notes or transferred to the Acquisition Fund (to the extent not needed for such purpose and subject to the satisfaction of certain conditions) to acquire or originate additional Student Loans;
- \$1,100,000 will be used to make the required Reserve Fund deposit;
- \$789,241 will be deposited to the Alternative Loan Loss Reserve Fund;
- \$626,500 will be used to pay costs of issuing the Series 2000 Notes; and
- \$144,000 will be deposited to the Administration Fund and used to pay fees and expenses relating to the Trust Estate.

## SOURCE OF PAYMENT AND SECURITY FOR THE NOTES

### General

The Notes will be limited obligations of NorthStar payable solely from the Trust Estate created under the Indenture, consisting of certain revenues and Funds and Accounts pledged under the Indenture. The pledged revenues include: (1) payments of interest and principal made by obligors of Financed Student Loans, (2) guarantee payments made by the Guarantee Agencies with respect to defaulted Financed Student Loans, (3) Interest Subsidy Payments and Special Allowance Payments made by the Department of Education to or for the account of the Eligible Lender Trustee as the holder of Financed FFELP Loans (excluding any Special Allowance Payments and Interest Subsidy Payments accrued prior to the date of Financing the related FFELP Loan), (4) income from investment of moneys in the pledged Funds and Accounts, (5) payments from a Swap Counterparty under a Swap Agreement, (6) proceeds of any sale or assignment by NorthStar of any Financed Student Loans, and (7) available Note proceeds. In addition, the pledged revenues with respect to one or more series of Additional Notes may include payments made by a Credit Facility Provider pursuant to a Credit Enhancement Facility.

The principal of, premium, if any, and interest on the Notes will be secured by a pledge of and a security interest in all rights, title, interest and privileges of NorthStar (1) with respect to Financed Student Loans, in, to and under any Servicing Agreement, the Eligible Lender Trust Agreement, any Repurchase Agreement and the Guarantee Agreements; (2) in, to and under all Financed Student Loans (including the evidences of indebtedness thereof and related documentation); (3) in, to and under any Credit Enhancement Facility, any Swap Agreement, any Swap Counterparty Guaranty, any Tender Agent Agreement, any Remarketing Agreement, any Auction Agent Agreement, any Market Agent Agreement and any Broker-Dealer Agreement; and (4) in and to the proceeds from the sale of the Notes (until expended for the purpose for which issued) and the revenues, moneys, evidences of indebtedness and securities in and payable to the pledged Funds and Accounts. The security interest in revenues, moneys, evidences of indebtedness and, unless registered in the name of the Trustee, securities payable into the various Funds and Accounts does not constitute a perfected security interest until such revenues, moneys, evidences of indebtedness and securities are received by the Trustee. Certain pledged revenues are subject to withdrawal from the pledged Funds and Accounts, to prior applications to pay costs of issuance, Administrative Allowances and Note Fees, and to certain other applications as described under "Description of the Indenture—Funds and Accounts."

### Additional Indenture Obligations

The Indenture provides that in the future, upon the satisfaction of certain conditions, NorthStar may issue one or more series of Notes thereunder. Such additional Notes may be issued as Senior Notes on a parity basis with any other Senior Notes (including the Series 2000 Senior Notes) or as Subordinate Notes on a parity basis with any other Subordinate Notes (including the Series 2000 Subordinate Notes). The Indenture also provides that Junior Subordinate Notes, that are subordinate to Senior Obligations and Subordinate Obligations, may be issued in the future. In addition, NorthStar may enter into Swap Agreements and may obtain Credit Enhancement Facilities from one or more Credit Facility Providers. NorthStar's obligations under the Swap Agreements, and its obligations to pay the premiums or fees of



Credit Facility Providers and, if applicable, to reimburse payments made under Credit Enhancement Facilities, may be parity obligations with the Senior Notes (such other Indenture Obligations, together with the Senior Notes, being referred to herein as "Senior Obligations") or parity obligations with the Subordinate Notes (such other Indenture Obligations, together with the Subordinate Notes, being referred to herein as "Subordinate Obligations"). The Senior Obligations and the Subordinate Obligations are referred to herein as "Indenture Obligations." See "Description of the Indenture—Notes and Other Indenture Obligations."

Under the Indenture, NorthStar may not enter into a Swap Agreement or obtain a Credit Enhancement Facility unless the Trustee shall have received written confirmation from each Rating Agency that entering into the Swap Agreement or obtaining the Credit Enhancement Facility, as the case may be, will not cause the reduction or withdrawal of any rating or ratings then applicable to any Outstanding Notes.

Any Credit Enhancement Facility may be obtained for the sole benefit of the series of Notes designated therein, in which event payments under such Credit Enhancement Facility would not be available for the payment of principal of, premium, if any, or interest on any other series of Notes. However, any payments required to be made to any Credit Facility Provider would be parity obligations with the other Indenture Obligations of the same class, payable from any revenues available to pay such other Indenture Obligations. No Credit Enhancement Facility is being obtained with respect to the Series 2000 Notes, and it is not expected that any revenues obtained under any Credit Enhancement Facility would be available to pay the Series 2000 Notes.

### **Priorities**

The Senior Notes (and any other Senior Indenture Obligations) are entitled to payment and certain other priorities over the Subordinate Notes (and any other Subordinate Indenture Obligations). Current payments of interest and principal due on Subordinate Notes on an interest payment date or principal payment date will be made (on a parity basis with any other Subordinate Indenture Obligations) only to the extent that there are sufficient moneys available for such payment, after making all such payments due on such date with respect to Senior Notes and other Senior Indenture Obligations. So long as any Senior Indenture Obligations remain Outstanding under the Indenture, the failure to make interest or principal payments with respect to Subordinate Notes will not constitute an Event of Default under the Indenture. In the event of an acceleration of the Notes, the principal of and accrued interest on the Subordinate Notes will be paid (on a parity basis with any other Subordinate Indenture Obligations) only to the extent there are moneys available under the Indenture after payment of the principal of, and accrued interest on, all Senior Notes and the satisfaction of all other Senior Indenture Obligations. In addition, holders of Senior Notes and Beneficiaries of other Senior Indenture Obligations are entitled to direct certain actions to be taken by the Trustee prior to and upon the occurrence of an Event of Default, including election of remedies. See "Description of the Indenture—Remedies."

## **Reserve Fund**

The Series 2000 Senior Notes and the Series 2000 Subordinate Notes (and any Senior Notes and Subordinate Notes issued in the future) will be additionally secured by the Reserve Fund in an amount equal to the Reserve Fund Requirement. The Reserve Fund Requirement shall be at any time an amount equal to one percent of the aggregate Principal Amount of the Series 2000 Notes then Outstanding or such other amount specified as the Reserve Fund Requirement in a Supplemental Indenture provided; however, that the amount on deposit shall never be less than \$500,000.

## **Subordination of the Series 2000 Subordinate Notes**

The rights of the holders of the Series 2000 Subordinate Notes to receive principal and interest payments will be subordinated to such rights of the holders of the Series 2000 Senior Notes, any other series of Senior Notes and any other Senior Obligations to the extent described herein. This subordination is intended to enhance the likelihood of regular receipt of the interest and principal by the holders of the Series 2000 Senior Notes, any other series of Senior Notes and any Other Senior Obligations. See “—Priorities” and “Description of the Indenture—Funds and Accounts.”

## **Possible Release of NorthStar and Substitution of Different Obligor**

NorthStar has formed another nonprofit corporation known as Northstar Education Finance, Inc., a Delaware nonstock nonprofit corporation (“NEF”). NEF has applied for a 501(c)(3) designation from the Internal Revenue Service. If and when this is received, NorthStar intends to transfer substantially all of its assets and liabilities, including those associated with the Notes issued under the Indenture, to NEF. Upon assumption by NEF, and satisfaction of the other conditions therefor as provided in the Indenture, NorthStar will no longer have any further liability with respect to the Notes. See “THE NORTHSTAR COMPANIES—Recent Corporate Restructuring” and “Description of the Indenture—Covenants—Continuing Existence; Merger and Consolidation.”

## **THE NORTHSTAR COMPANIES**

NorthStar Guarantee, Inc., Division B, NorthStar Education Finance, Inc., T.H.E. Funding, L.L.C. and NorthStar Capital Markets Services, Inc., all of which are affiliates, are collectively referred to herein as the “NorthStar Companies.”

## **Organization**

*NorthStar Guarantee, Inc., Division B*, a Minnesota nonprofit corporation recognized as exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, was established in March of 1991. It began operations as the State of Minnesota’s designated federal loan guarantor for education loans made under the Higher Education Act. NorthStar also provided loan origination services, loan escrow and loan disbursement services for lenders and educational institutions.

NorthStar changed its business focus in 1997, from that of a guarantor and disbursement agent for other lenders, to that of a direct lender of education loans through an eligible lender trustee. The change in business activities coincided with NorthStar affiliating with the Great Lakes Higher Education Corporation ("Great Lakes") of Madison, Wisconsin on August 1, 1997. Since August of 1997, NorthStar has had an operating division that is responsible for the wind down of the federal loan guarantee operations (Division A) and a division that is responsible for the new student loan business (Division B). NorthStar and Great Lakes each agreed that the activities and assets of the student loan business would be contributed to a new nonprofit entity, when the business could sustain itself, and such entity, NEF, has been formed as described below. Through August 30, 2000, the student loan business has originated over \$587 million of education loans. The student loans are financed and held by NorthStar T.H.E. Funding, L.L.C. ("T.H.E. Funding") a Delaware limited liability company the sole member of which is NorthStar.

Virtually all of the loans consist of NorthStar Guarantee's flagship loan program known as the Total Higher Education (T.H.E.) Loan Program. The T.H.E. Loan Program is marketed to low-default graduate professional schools and low-default, high-cost, four year undergraduate institutions. NorthStar's mission and business strategy is to create innovative financing programs that allow for low-to-no up-front fees on federal insured loans and a repayment benefit program funded from residual payments received after the loans are financed. NorthStar also has other student loan programs, as described below.

### **Recent Corporate Restructuring**

*NorthStar Education Finance, Inc.* ("NEF") is a Delaware nonstock nonprofit corporation incorporated in January, 2000. NEF was formed to carry on the T.H.E. Loan Programs started by NorthStar and to satisfy the agreement between NorthStar and Great Lakes described above.

NEF entered into an Asset Contribution Agreement dated as of February 28, 2000 with NorthStar. Pursuant to that agreement, NorthStar contributed certain assets used in T.H.E. Loan Program to NEF and NEF assumed certain liabilities of NorthStar. NorthStar agreed to transfer to NEF 100% of the membership interests in T.H.E. Funding (and thus all existing T.H.E. Loans) upon receipt of a favorable determination from the Internal Revenue Service that NEF is an organization described in Section 501(c)(3) of the Internal Revenue Code, and NEF would then assume all associated liabilities. Upon receipt of a 501(c)(3) determination letter, substantially all assets and liabilities of NorthStar will be transferred to NEF.

NEF formed NCMS, a Delaware for-profit business corporation in January, 2000. NEF is the sole shareholder of NCMS. NCMS has entered into an Asset Contribution and Sale Agreement dated as of February 28, 2000 with NEF. Pursuant to that agreement NEF contributed certain assets used in T.H.E. Loan Program to NCMS. When the membership interest in T.H.E. Funding is contributed by NorthStar to NEF it will remain with NEF and not be transferred to NCMS. All T.H.E. Loans will remain owned by NEF.

NEF does not have any employees; personnel services are provided by NCMS. NCMS has entered into an Administration Agreement with NEF, T.H.E. Funding and NorthStar to perform certain duties under the terms of contracts to which T.H.E. Funding is a party with respect to the origination, servicing and financing of the T.H.E. Loans.

## Directors and Officers

### *NorthStar Guarantee, Inc., Division B*

NorthStar is a nonprofit membership organization whose sole member is Great Lakes, a Wisconsin nonprofit corporation. The business of NorthStar is divided into two divisions, each with separate boards of directors and officers. Each division has autonomous control over its business and assets. The division responsible for the T.H.E. Loan Program is designated "Division B." The current officers and directors of Division B are as follows:

<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>
Kennon Rothchild	Chairman of the Board	Retired Mortgage Banker
Charles Osborne	Director	Independent Businessman
Taige P. Thornton	President and Chief Executive Officer	NorthStar Companies

Each director and officer of NorthStar holds his or her position until death, resignation, removal or until his successor is elected and qualified.

The division responsible for all other affairs, property and business of NorthStar is "Division A."

### *NorthStar Education Finance, Inc.*

NEF is a Delaware nonstock nonprofit corporation. It is a membership organization, and the current members are Kennon Rothchild and Charles Osborne. The current officers and directors of NEF are as follows:

<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>
Kennon Rothchild	Chairman of the Board	Retired Mortgage Banker
Taige P. Thornton	President and Chief Executive Officer	NorthStar Companies
Clyde Nelson	Treasurer and Director	Retired Mortgage Banker
Charles Osborne	Director	Independent Businessman
The Honorable Bill Frenzel	Director	Guest Scholar, Brookings Institution and former Congressman
Anita Pampusch	Director	President, The Bush Foundation
Mark A. Lindgren	Secretary	NorthStar Companies

Each director and officer of NEF holds his or her position until death, resignation, removal or until his or her successor is elected and qualified.

### *NorthStar Capital Markets Services, Inc.*

NCMS is a Delaware for-profit business corporation. NEF holds 100% of NCMS's outstanding common stock. Warrants representing approximately 6% of NCMS's outstanding common stock have been issued to certain holders of NCMS debt obligations. The current officers and directors of NCMS are as follows:

<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>
Charles Osborne	Chairman of the Board	Independent Businessman
Taige P. Thornton	President, Chief Executive Officer and Director	NorthStar Companies
Jamie Wolfe	Secretary and Treasurer and Director	NorthStar Companies
Lisa Schoonover	Chief Operating Officer	NorthStar Companies
Mark A. Lindgren	Vice President and General Counsel	NorthStar Companies
Kennon Rothchild	Director	Retired Mortgage Banker
Charlton Dietz	Director	Retired General Counsel, 3M Corporation
John D. Emerick, Jr.	Director	Media Industry Finance, the CIT Group
Judith Mares	Director	Financial Consultant

Each director and officer of NCMS holds his or her position until death, resignation or removal or until his or her successor is elected and qualified.

*NorthStar T.H.E. Funding, L.L.C.*

T.H.E. Funding is a Delaware limited liability company. The sole member of T.H.E. Funding is NorthStar. The current managers of T.H.E. Funding are as follows:

<b>Name</b>	<b>Position</b>	<b>Principal Occupation</b>
Taige P. Thornton	President	NorthStar Companies
Jamie Wolfe	Vice President and Chief Financial Officer	NorthStar Companies
Michael Kozlak	Director	Mortgage Finance, Residential Funding Corporation
Mark A. Lindgren	Secretary	NorthStar Companies

T.H.E. Funding originates and holds NorthStar loans. It is a limited purpose bankruptcy remote entity that obtains all of its funding from an asset-backed commercial paper conduit. Its limited liability company agreement restricts its activities to originating and holding loans financed by that conduit and selling such loans into other financings.

*Key Personnel of NorthStar Companies*

Taige P. Thornton, 48, is the President and Chief Executive Officer of NorthStar, NEF and NCMS. He is a director of NEF and NCMS, and is a former director of NorthStar and was also its President and Chief Executive Officer. Mr. Thornton started NorthStar in 1991 and grew it into the sixth largest education loan insurer in the country. Mr. Thornton has been engaged in the financial services industry for the past twenty-three years. Previous executive positions were: past President of the Consumer Finance Group, First Bank System, Vice President of Operations at Balcor/American Express, and an Officer at the Harris Trust and Savings Bank. Mr. Thornton received his BA degree in Political Science from The University of Iowa in 1975.

Jamie Wolfe, 38, is the Chief Financial Officer of NorthStar and NCMS, and is a director of NCMS. Mr. Wolfe is responsible for establishing financial policies, procedures, controls and reporting systems and analyzing the financial data that is used for strategic planning. Mr. Wolfe began with NorthStar in 1991 and has been with the NorthStar Companies ever since. Prior to 1991, Mr. Wolfe held positions with First Bank System and ITT Consumer Finance. Mr. Wolfe

received a BS degree in Finance in 1987 and an MBA in Finance in 1988 from the University of Minnesota.

Lisa Schoonover, 38, is the Chief Operating Officer of NCMS. Ms. Schoonover has been in the student loan industry since 1988, and employed by the NorthStar Companies since 1991. Ms. Schoonover is responsible for the operational and customer service aspects of the business, including loan processing operations, loan origination, disbursement and electronic processing. She is also instrumental in developing new products and programs, implementing and designing operating systems, creating marketing materials, training, and building market share for NorthStar's product lines.

Thomas Dixon, 42, is the Chief Information Officer for NCMS. Mr. Dixon began with the NorthStar Companies in 1991, joined Great Lakes in 1997 and rejoined the NorthStar Companies in 2000. He is responsible for strategic, design and operational decisions regarding the information technology utilized by NorthStar. Mr. Dixon has 17 years of experience in analysis, design, development, and management of computer software with 12 years experience in the student loan industry. Mr. Dixon has held positions with Higher Education Assistance Foundation, NorthStar, and Great Lakes Higher Education Corporation. Mr. Dixon received a BS in Computer Science from the University of Minnesota in 1996.

Mark Lindgren, 46, has been employed by the NorthStar Companies since March, 2000 and is responsible for the legal affairs of the NorthStar Companies and assists with its financing activities. Mr. Lindgren formerly was engaged in the private practice of law as a shareholder of Leonard, Street and Deinard and was also a Managing Director at Piper Jaffray, Inc. Mr. Lindgren received his undergraduate degree from St. Cloud State University in 1977 and his law degree from the University of Minnesota in 1981.

## **Operations**

NorthStar's primary activity is the administration of its loan programs, which consist of the T.H.E (Total Higher Education) Loan Program, the Voyager Loan Program and the NorthStar Select Programs. The T.H.E. Loan Program provides both federally reinsured and Alternative Loans to students attending qualified graduate and four-year undergraduate schools. The Voyager Loan Program is operated in conjunction with the Minnesota Private College Council and provides both government insured and uninsured loans to students attending qualified Minnesota private colleges. The NorthStar Select Program provides federally reinsured student loans to 4-year institutions not eligible for the T.H.E. or Voyager Program.

NCMS currently has 20 employees. Its offices are located at 444 Cedar Street, Suite 550, St. Paul, Minnesota 55101. Its telephone number is 888-843-0004.

As of August 30, 2000 the NorthStar Companies (NorthStar, Division B, T.H.E. Funding, NEF and NCMS) had total assets of \$539,820,000 and total liabilities of \$540,210,000 and a cumulative net deficit as of such date of \$354,000. As of August 30, 2000 NCMS had total assets of \$830,000 and total liabilities of \$3,100,000 and a cumulative net deficit as of such date of \$2,270,000. NCMS may not have sufficient assets at any point in time to acquire loans pursuant to the repurchase agreement. Except for those limited assets of NorthStar pledged

under the Indenture and the purchase obligation of NCMS with respect to certain student loans as described under “The Financed Student Loans—Acquisition of Initial Financed Student Loans” herein, none of the assets of the NorthStar Companies are available to pay principal of or interest on the Notes.

NorthStar has only been a lender with respect to education loans (through an eligible lender trustee in the case of FFELP Loans) since 1997. T.H.E. Funding began operations in 1998 and NCMS began operations in January 2000. The NorthStar Companies have used debt financings to fund their business of originating and acquiring loans and therefore, given their relatively recent commencement of such operations have the cumulative deficit set forth in the preceding paragraph. NorthStar and NCMS retain portions of the student loan payments as a fee and they therefore expect, over time, that the cumulative net deficit will be reduced or diminished. However, there can be no assurance that the cumulative net deficit of the NorthStar Companies will be reduced or diminished.

### **NorthStar Loan Programs**

The current T.H.E. Loan Program consists of two major components:

- (1) Federal Family Education Loans (FFEL) –
  - (a) Subsidized FFEL
  - (b) Unsubsidized FFEL
  - (c) Parent Loan For Undergraduate Student (PLUS)
  - (d) Consolidation Loans
- (2) Alternative Loans – Private Consumer Loans Tailored for Academic Discipline –
  - (a) Medical Loans
  - (b) Law / MBA Loans
  - (c) National Undergraduate & Graduate Loans

The Alternative Loan component is designed to provide an additional loan to a student to cover the difference between the cost of attending the higher education institution and the federal and institutional grants and loans already provided. The FFEL and Alternative Loans are offered separately or as a comprehensive financing package. The T.H.E. Loan Program is available in the following manner: (1) the federally guaranteed loan is available to any student attending an eligible four-year institution and (2) the Alternative Loan is generally only available to students attending institutions with cohort default rates (a statistic published by the Department of Education under the Higher Education Act) that are less than 4%.

For the three-year period July 1, 1997 to September 30, 2000, NorthStar approved FFEL Loans of \$546,000,000 and Alternative Loans of \$111,000,000. All of these have been originated or are awaiting disbursement.

At September 30, 2000 approximately \$3.5 million of the loans were Voyager Program Loans, approximately \$600,000 of the loans were NorthStar Select Program Loans, with the remainder being T.H.E. Program Loans.

#### *Loan Origination*

When NorthStar and Great Lakes affiliated in 1997, NorthStar's origination processing personnel became employees of Great Lakes. Until April 2000, all loans originated by or on behalf of NorthStar were processed and serviced by Great Lakes under contract with NorthStar. NorthStar has now rehired many of its former employees and processed originations since April. Great Lakes will retain all servicing functions and will continue to originate Voyager Program Loans, consolidation loans and certain NorthStar Select Program Loans. The origination process will remain similar to that used by Great Lakes, but with enhanced computer systems. The Alternative Loans are originated by University National Bank and purchased by NorthStar shortly after origination pursuant to the terms of a Purchase and Sale Agreement dated August 16, 1999, as amended, under which University National Bank may, but is not obligated to, offer to sell Alternative Loans to NorthStar.

NorthStar's Program Guidelines (the "Program Guidelines") set forth the terms under which loans will be made and define borrower and school eligibility. Current programs are as follows:

- The T.H.E. Loan Programs, which include discipline specific programs for law, MBA, and Medical students. T.H.E. also includes a national program generally available to students attending four year schools with five year average cohort default rates of less than 4%. All of the T.H.E. programs include federal guaranteed loans as well as Alternative Loans. All students attending a four-year institution and eligible for federal guaranteed loans are eligible for T.H.E. federal guaranteed loans.
- The Voyager Loan Program, which provides federal guaranteed loans and Alternative Loans to the sixteen schools that make up the Minnesota Private College Council and may also include a few out of state private colleges.
- The NorthStar Select Programs, which offer federal guaranteed loans only to four-year schools ineligible for the T.H.E. Loan Program.

Alternative Loans may be made only to eligible borrowers at eligible schools. In order to be an eligible school, the school generally must have a published 5-year weighted average cohort default rate of 4% or less. The cohort default rate is published by the Department of Education in connection with the Higher Education Act. For medical schools, default statistics published with respect to the Health Education Assistance Loan Program are used to determine eligibility when they are available. Schools will be eligible for the law and MBA programs if they are



expected to have cumulative default rates of 8% or less, as estimated by NorthStar based upon historical data available to it.

When applications are received, the applications are reviewed to determine that the application is complete, that the student is an eligible borrower and the school an eligible institution. Each application also includes a certification from the submitting school that the student is eligible for the particular loan program and that the amount of the loan does not exceed the student's cost of education less other financial aid. If the application is complete and consistent with the Program Guidelines, the loan is approved. If an application is determined not to comply with the Program Guidelines, the applicant will be sent an adverse determination letter, which will include instructions on the steps to be taken to appeal the denial if the denial is based on an adverse credit determination. Detailed appeal procedures are contained in the Program Guidelines.

## **THE FINANCED STUDENT LOANS**

### **Description of Eligible Loans to be Financed**

The Initial Financed Student Loans to be acquired with proceeds of the Series 2000 Notes will be transferred by T.H.E. Funding to NorthStar on the Date of Issuance. See "The Financed Student Loans —Acquisition of Initial Financed Student Loans." The Initial Financed Student Loans have been made pursuant to the NorthStar Loan Program for academic years 1997-1998, 1998-1999 and 1999-2000. The Initial Financed Student Loans will consist of FFELP Loans having an approximate aggregate principal amount of \$79,332,031 and Alternative Loans having an approximate aggregate principal amount of \$19,731,028, each as of September 30, 2000.

Each Financed FFELP Loan is required to be guaranteed as to principal and interest by a Guarantee Agency and reinsured by the Department of Education to the extent provided under the Higher Education Act. Financed FFELP Loans are required to be eligible for Special Allowance Payments and, in the case of Stafford Loans, Interest Subsidy Payments paid by the Department of Education. See "Description of the FFEL Program." Each Alternative Loan is unsecured and is not guaranteed by any third party. See "Description of Alternative Loans."

Each of the Student Loans provides for the amortization of its outstanding principal balance over a series of periodic payments. Each periodic payment consists of an installment of interest which is calculated on the basis of the outstanding principal balance of the Financed Student Loan multiplied by the applicable interest rate and further multiplied by the period elapsed (as a fraction of a calendar year) since the preceding payment of interest was made. As payments are received in respect of a Financed Student Loan, the amount received is applied first to outstanding late fees, if collected, then to interest accrued to the date of payment and the balance is applied to reduce the unpaid principal balance. Accordingly, if a borrower pays a regular installment before its scheduled due date, the portion of the payment allocable to interest for the period since the preceding payment was made will be less than it would have been had the payment been made as scheduled, and the portion of the payment applied to reduce the unpaid principal balance will be correspondingly greater. Conversely, if a borrower pays a monthly installment after its scheduled due date, the portion of the payment allocable to interest for the period since the preceding payment was made will be greater than it would have been had

the payment been made as scheduled, and the portion of the payment applied to reduce the unpaid principal balance will be correspondingly less. In either case, subject to any applicable Deferment Periods or Forbearance Periods, the borrower pays installments until the final scheduled payment date, at which time the amount of the final installment is increased or decreased as necessary to repay the then outstanding principal balance of such Financed Student Loan.

Except as described above, there will be no required characteristics of the additional Financed Student Loans. Therefore, the acquisition of additional Financed Student Loans from funds available for that purpose under the Indenture will cause the aggregate characteristics of the entire pool of Financed Student Loans, including the composition of the Financed Student Loans and of the borrowers thereof, the distribution by interest rate and the distribution by principal balance described in the following tables, to vary from those of the Initial Financed Student Loans as described herein. Furthermore, the issuance of additional series of Notes and the acquisition of Financed Student Loans with the proceeds thereof may cause the aggregate characteristics of the pool of Financed Student Loans to vary still further from those of the Initial Financed Student Loans described herein. In particular, future Financed Student Loans are expected to include Consolidation Loans made under the FFELP Loan program, and Alternative Loans with terms that differ from those included in the Initial Financed Student Loans.

Set forth below in the following tables is a description of certain characteristics of the Initial Financed Student Loans as of September 30, 2000.

**Composition of the Initial Financed Student Loans**

Aggregate Outstanding Principal Balance	\$99,063,059 <sup>1</sup>
Number of Borrowers	5,250
Average Outstanding Principal Balance per Borrower	\$18,869
Number of Loans	12,102
Average Outstanding Principal Balance per Loan	\$8,186
Weighted Average Remaining Term (months)	138
Weighted Average Borrower Interest Rate	8.183%

<sup>1</sup>Does not include amounts to be capitalized, estimated to be approximately \$4,582,663 as of September 30, 2000.

**Distribution of the Initial Financed Student Loans by Borrower Principal Balance Outstanding**

<u>Borrower Principal Balance</u>	<u>Number of Loans</u>	<u>Principal Balance</u>	<u>Percent of Total</u>
Less than \$3,000	2,246	\$ 4,136,132	4.18%
\$3,000-\$5,999	2,701	12,359,506	12.48%
\$6,000-\$8,999	4,129	33,788,701	34.11%
\$9,000-\$11,999	1,644	16,745,134	16.90%
\$12,000-\$14,999	297	4,001,838	4.03%
\$15,000-\$17,999	274	4,512,775	4.56%
\$18,000-\$20,999	151	2,939,168	2.97%
\$21,000 or greater	660	20,579,805	20.77%
<b>Total</b>	<b>12,102</b>	<b>\$99,063,059</b>	<b>100.00%</b>

**Distribution of the Initial  
Financed Student Loans by Loan Type**

Loan Type	Number of Loans	Principal Balance	Percent of Total
Subsidized Stafford	5,119	\$32,882,950	33.19%
Unsubsidized Stafford	3,557	38,138,361	38.50%
Consolidation	38	937,641	0.95%
PLUS	1,152	<u>7,373,079</u>	7.44%
Subtotal FFELP	9,866	79,332,031	80.08%
Alternative Medical	954	8,700,783	8.78%
Alternative Law and MBA	1,041	9,499,225	9.59%
Other Alternative	241	<u>1,531,020</u>	<u>1.55%</u>
Subtotal Alternative	2,236	19,731,028	19.92%
<b>Total</b>	<b>12,102</b>	<b>\$99,063,059</b>	<b>100.00%</b>

**Distribution of the Initial Financed Student Loans  
By Borrower Payment Status**

Borrower Status	Number of Loans	Principal Balance	Percent of Total
In School			-
Grace	6,069	\$50,348,619	50.82%
Repayment	4,076	27,617,499	27.88%
Deferment	1,250	14,349,438	14.49%
Forbearance	<u>707</u>	<u>6,747,503</u>	<u>6.81%</u>
<b>Total</b>	<b>12,102</b>	<b>\$99,063,059</b>	<b>100.00%</b>

**Distribution of the Initial Financed  
Student Loans by Borrower Interest Rate**

Borrower Interest Rate	Number of Loans	Principal Balance	Percent of Total
Less than 7.50%	13	\$ 323,552	0.33%
7.50% to 7.99%	4,521	30,630,577	30.92%
8.00% to 8.49%	4,993	47,894,974	48.35%
8.50% to 8.99%	1,293	9,183,710	9.27%
9.00% to 9.49%	<u>1,282</u>	<u>11,030,246</u>	<u>11.13%</u>
<b>Total</b>	<b>12,102</b>	<b>\$99,063,059</b>	<b>100.00%</b>

**Distribution of the Initial Financed Student  
Loans by Remaining Amortization Terms to Scheduled Maturity**

Remaining Months to Scheduled Maturity	Number of Loans	Principal Balance	Percent of Total
Less than 120	1,607	\$10,371,882	10.47%
120	8,223	68,048,814	68.69%
121-179	407	3,672,306	3.71%
180-239	955	8,264,992	8.34%
240 and Over	910	<u>8,705,065</u>	<u>8.79%</u>
<b>Total</b>	<b>12,102</b>	<b>\$99,063,059</b>	<b>100.00%</b>

## **Borrower Benefit Programs**

NorthStar reduces the cost of financing education costs for its borrowers by not collecting origination fees from the borrower and by paying third party origination fees on behalf of the borrower, and through application of the T.H.E. Bonus. The T.H.E. Bonus utilizes certain amounts released from the Indenture to make interest payments on behalf of borrowers under the T.H.E. Loan Program that are in active repayment and are not in default. NorthStar is not obligated to make any such application in any particular amount or at any particular time, in which case the entire principal and interest continues to be paid for by the borrower. The T.H.E. Bonus will be used only to the extent of amounts released from the Indenture for such purpose or similar amounts released from other financings that NorthStar may do in the future. Any such payment of principal and interest made by NorthStar under the T.H.E. Bonus will be deposited in the Collection Fund.

## **Acquisition of Initial Financed Student Loans**

T.H.E. Funding (referred to also as the "Transferor") will transfer the Initial Financed Student Loans to NorthStar. The transfer will be made in the form of a distribution of assets to NorthStar, as the Transferor's sole member. To allow the Transferor to transfer the loans to NorthStar, NorthStar will apply a portion of the proceeds of the Notes deposited in the Acquisition Fund to the satisfaction of the Transferor's debt obligations secured by the Initial Financed Student Loans.

The transfer of the student loans to NorthStar is without recourse against the Transferor. Neither NorthStar nor the Trustee will have any right to make recourse to or collect from the Transferor if the student loans should fail to meet the requirements of an Eligible Loan for any reason or if the transfer should fail to provide the Trustee with good title to the student loans.

NCMS has agreed in a repurchase agreement in connection with its administration of student loans for NorthStar that NCMS will purchase student loans which cease to constitute Eligible Loans under the Indenture due to actions taken or failed to be taken by owners of the student loans prior to their purchase by NorthStar. However, NCMS may or may not have the financial resources to purchase all such student loans. Finally, this obligation will not cover any problem arising after the sale of the student loan to NorthStar that was not caused by such action or failure to take such action.

## **Servicing and "Due Diligence"**

NorthStar will covenant in the Indenture to cause a Servicer to administer and collect all Financed Student Loans in accordance with all applicable requirements of the Higher Education Act, the Secretary of Education, the Indenture, and the Guarantee Agreements. Pursuant to each Servicing Agreement, the Servicer will service student loans acquired by NorthStar under the Indenture.

The Higher Education Act requires that the Originating Lender, the Eligible Lender Trustee, and their agents (including the Servicer) exercise "due diligence" in the making, servicing and collection of Financed FFELP Loans and that a Guarantee Agency exercise due diligence in collecting loans which it holds. The Higher Education Act defines "due diligence"

as requiring the holder of a Student Loan to utilize servicing and collection practices at least as extensive and forceful as those generally practiced by financial institutions for the collection of consumer loans, and requires that certain specified collection actions be taken within certain specified time periods with respect to a delinquent loan or a defaulted loan. The Guarantee Agencies have established procedures and standards for due diligence to be exercised by each Guarantee Agency and by lenders (including the Eligible Lender Trustee) which hold loans that are guaranteed by the respective Guarantee Agencies. The Eligible Lender Trustee, the Lender or a Guarantee Agency may not relieve itself of its responsibility for meeting these standards by delegation to any servicing agent. Accordingly, if the Originating Lender or the Servicer fails to meet any such standards, NorthStar's ability to realize the benefits of guarantee payments (and, with respect to Student Loans eligible for such payments, Interest Subsidy Payments and Special Allowance Payments) may be adversely affected. If a Guarantee Agency fails to meet such standards with respect to FFELP Loans, that Guarantee Agency's ability to realize the benefits of federal reinsurance payments may be adversely affected.

The Initial Financed Student Loans are currently serviced on behalf of the Transferor (and upon their acquisition by NorthStar, will continue to be serviced on behalf of NorthStar) by Great Lakes Higher Education Servicing Corporation ("GLHESC") or Great Lakes Educational Loan Services, Inc. ("GLELSI"). See "Servicing of Financed Student Loans—The Servicing Agreements." The Initial Financed Student Loans were serviced by such entities since their origination.

## **SERVICING OF FINANCED STUDENT LOANS**

### **General**

The Financed Student Loans guaranteed by Great lakes Higher Education Guaranty Corporation ("GLHEGC") are currently serviced on behalf of NorthStar by GLHESC pursuant to a Student Loan Origination and Servicing Agreement dated November 1, 2000, as amended (the "Great Lakes Servicing Agreement"). The Financed Student Loans which are Alternative Loans are currently serviced on behalf of NorthStar by GLELSI pursuant to a Disbursement Services, Application Processing and Servicing Agreement for Private Loans dated November 1, 2000, as amended (the "Alternative Loan Servicing Agreement").

### **Description of the Servicing Agreements**

#### *The Great Lakes Servicing Agreement*

GLHESC pursuant to the servicing agreement, generally agrees to provide all customary post-origination student loan servicing activities with respect to student loans made under the NorthStar Loan Programs in accordance with the Program Guidelines. Such services generally include maintaining custody of copies of promissory notes and related documentation, billing for and processing payments from borrowers, undertaking certain required collection activities with respect to delinquent loans, submitting guarantee claims with respect to defaulted loans, establishing and maintaining records with respect to its servicing activities, and providing certain reports of its activities and the student loan portfolios serviced by them. It agrees to service the loans in compliance with the Higher Education Act, the guidelines of the applicable guarantor,

and all applicable federal and state laws and regulations. At the option of NorthStar, the servicers may be required to provide certain origination services. Origination services are currently being provided by GLHESC only for Voyager Program Loans, consolidation loans and certain NorthStar Select Program Loans.

NorthStar agrees to pay the Servicers monthly fees for the servicing of its student loans according to schedules set forth in the Servicing Agreements and the Program Guidelines. The fees are subject to annual increases. The Great Lakes Servicing Agreement provides that GLHESC shall not be liable in the performance of services except for gross or willful negligence or misconduct and then only to the extent of compensation theretofore paid with respect to such serviced account.

The Great Lakes Servicing Agreement continues in force until terminated or modified as set forth therein. The Great Lakes Servicing Agreement may be terminated only at the end of a calendar quarter and only if written notice is given: (1) by NorthStar to GLHESC, at least 30 days prior to the end of a calendar quarter, or (2) by GLHESC, to NorthStar at least 180 days prior to the end of a calendar quarter. Upon termination by NorthStar, NorthStar is obligated to pay a termination fee set forth in the Servicing Agreement.

#### *Alternative Loan Servicing Agreement*

Under the Alternative Loan Servicing Agreement, GLELSI agrees to provide post-origination student loan servicing activities with respect to Alternative Loans made under the NorthStar Loan Programs in accordance with the Program Guidelines. Such services generally include maintaining copies of promissory notes and related documentation, billing for and processing payments from borrowers, undertaking certain required due diligence activities with respect to delinquent loans, establishing and maintaining records with respect to its servicing activities, and providing certain reports of its activities and the student loan portfolios serviced by them. With respect to delinquent and defaulted Alternative Loans, GLELSI obligations are limited to collecting on returned bank checks and preparing appropriate information to allow any Alternative Loan reserve fund established for such loan to reimburse any loss. After an Alternative Loan becomes more than 180 days delinquent, GLELSI returns the loan to NorthStar, which generally utilizes unrelated collection agencies for further collection efforts.

NorthStar agrees to pay the Servicers monthly fees for the servicing of its student loans according to schedules set forth in the Servicing Agreements and the Program Guidelines. The fees are subject to annual increases.

The Alternative Loan Servicing Agreement provides that GLELSI shall not be liable for any loss or damage incurred as the result of the failure of a student borrower to repay a loan, unless such failure was directly and primarily the result of errors or omissions of GLELSI in performing its obligations under the servicing agreement or the failure to follow the Program Guidelines. GLELSI is required to indemnify NorthStar from any losses which result from claims of third parties arising from the breach of any representations, covenants or agreements of GLELSI in the servicing agreement or any conduct, act or omission of GLELSI relating to the provision of services under the Alternative Loan Servicing Agreement. Notwithstanding the foregoing, GLELSI shall have no obligation to indemnify against any loss to the extent the loss

arises from the negligence, or willful misconduct of NorthStar, is based on utilization of loan documentation provided by NorthStar or to the reliance by GLELSI on the Program Guidelines, or arises out of federal or state consumer protection laws.

The Alternative Loan Servicing Agreement requires NorthStar to indemnify GLELSI from any losses which result from claims of third parties arising from the breach of any representations, covenants or agreements of NorthStar in the Alternative Loan Servicing Agreement. GLELSI's use of documentation provided by NorthStar, GLELSI's reliance on instructions received from NorthStar, the Program Guidelines and federal and state consumer protection laws. Notwithstanding the foregoing, NorthStar shall have no obligation to indemnify against any loss to the extent the loss arises from the negligence, or willful misconduct of GLELSI.

The Alternative Loan Servicing Agreement has an initial term ending July 10, 2001, provided that the agreement is automatically extended for additional 12 month terms unless NorthStar provides notice to GLELSI at least 60 days prior to the end of a term of its intention not to renew the agreement. The Alternative Loan Servicing Agreement may also be terminated by either party for cause. NorthStar may terminate the agreement if Great Lakes experiences certain bankruptcy or insolvency events, and Great Lakes may terminate the agreement in the event of material changes which significantly increase the costs or obligations of GLELSI under the agreement.

### **The Servicers**

GLELSI is a wholly owned subsidiary of GLHESC. The statistics below relate to the operation of GLHESC and its subsidiary on a combined basis. As of April 30, 2000, GLHESC and its subsidiary serviced 932,599 student and parental accounts with an outstanding balance of \$7,547,453,282 for 1,239 lenders nationwide. Less than 6% of the portfolio serviced by GLHESC and its subsidiary is made up of loans to students at for-profit trade schools. As of April 30, 2000, 64% of the portfolio serviced by GLHESC and its subsidiary was in repayment status, 5% was in grace status and the remaining 31% was in interim status.

GLHESC will provide a copy of its most recent audited financial statements upon receipt of a written request directed to 2401 International Lane, Madison, Wisconsin 53704, Attention: Vice President and Chief Financial Officer.

(Source: GLHESC.)

## **DESCRIPTION OF THE FFEL PROGRAM**

### **General**

The Higher Education Act sets forth provisions establishing the FFEL Program, pursuant to which state agencies or private nonprofit corporations administering student loan insurance programs (referred to as "Guarantee Agencies") are reimbursed for losses sustained in the operation of their programs, and holders of certain loans made under such programs are paid subsidies for owning such loans.

The Higher Education Act currently authorizes certain student loans to be covered under the FFEL Program if they are contracted for and paid to the student prior to September 30, 2004, unless a student has received a loan under the FFEL Program prior to such date, in which case that student may receive a student loan covered by the FFEL Program until September 30, 2008. Congress has extended similar authorization dates in prior versions of the Higher Education Act; however, there can be no assurance that the current authorization dates will again be extended or that the other provisions of the Higher Education Act will be continued in their present form.

The Higher Education Act has been subject to frequent amendments, including several amendments that have changed the terms of and eligibility requirements for the FFELP Loans. Generally, this Offering Memorandum describes only the provisions of the FFEL Program that apply to loans made on or after July 1, 1998. If FFELP Loans made prior to that date were to be Financed, they may have different terms from those described herein.

There can be no assurance that relevant federal laws, including the Higher Education Act, will not be changed in a manner that may affect the terms of FFELP Loans or may adversely affect the receipt of funds by the Guarantee Agencies or by the Trustee with respect to Financed FFELP Loans.

This is only a summary of certain provisions of the Higher Education Act. Reference is made to the text of the Higher Education Act for full and complete statements of its provisions.

## **Loan Terms**

### *General*

Four types of loans are currently available under the FFEL Program: 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 these loans are made under the NorthStar Loan Programs.

The primary loan under the FFEL Program is the Stafford Loan. Students who are not eligible for Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Stafford Loans. Parents of students may be able to obtain PLUS Loans. Consolidation Loans are available to borrowers with existing loans made under the FFEL Program and certain other federal programs to consolidate repayment of their existing loans.

### *Eligibility*

*General.* A student is eligible for loans made under the FFEL Program only if he or she: (1) has been accepted for enrollment or is enrolled in good standing at an eligible institution of higher education (which term includes certain vocational schools), (2) is carrying or planning to carry at least one-half the normal full-time workload for the course of study the student is pursuing (as determined by the institution) which either leads to a recognized educational credential or is necessary for enrollment in a course of study that leads to such a credential, (3) has agreed to promptly notify the holder of the loan concerning any change of address, (4) if presently enrolled, is maintaining satisfactory progress in the course of study he or she is



pursuing, (5) does not owe a refund on, and is not (except as specifically permitted under the Higher Education Act) in default under, any loan or grant made under the Higher Education Act, (6) has filed with the eligible institution a statement of educational purpose, (7) meets certain citizenship requirements, and (8) except in the case of a graduate or professional student, has received a preliminary determination of eligibility or ineligibility for a Pell Grant.

The educational institution generally determines and documents the amount of need for a loan and provides the lender with a statement containing information relating to the loan amount for which a borrower is eligible. The specific requirements of these determinations of need and statements to lenders vary based on the type of loan (for example, Stafford or Unsubsidized Stafford) and the requirements applicable at the time a loan was made. The amount of such need is generally based on the student's estimated cost of attendance, the estimated financial assistance available to such student and, for Stafford Loans, the expected family contribution with respect to the student, all of which are computed in accordance with standards set forth in the Higher Education Act.

*Stafford Loans.* Stafford Loans generally are made only to student borrowers who meet certain financial needs tests.

*Unsubsidized Stafford Loans.* Unsubsidized Stafford Loans generally are made to student borrowers without regard to financial need.

*Consolidation Loans.* To be eligible for a Consolidation Loan a borrower must (a) have outstanding indebtedness on student loans made under the FFEL Program 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) not be subject to a judgment secured through litigation with respect to certain Higher Education Act loans or to certain wage garnishment orders. A married couple who agree to be jointly liable on a Consolidation Loan may be treated as an individual for purposes of obtaining a Consolidation Loan.

*PLUS Loans.* PLUS Loans generally are made to parents of dependent undergraduate students.

### *Interest Rates*

The Higher Education Act establishes maximum interest rates for each of the various types of loans. The Higher Education Act allows lesser rates of interest to be charged. Many lenders have offered repayment incentives or other programs that involve reduced interest rates on certain loans made under the FFEL Program.

*Stafford Loans.* For Stafford Loans made on or after July 1, 1998 but before October 1, 2003, the interest rate is adjusted annually, and for any twelve month period commencing on a July 1 is equal to the bond equivalent rate of 91-day U.S. Treasury bills auctioned at the final auction prior to the preceding June 1, plus (a) 1.7% per annum prior to the time the loan enters repayment and during any Deferment Periods, and (b) 2.3% per annum during repayment, but not to exceed 8.25% per annum.

The Higher Education Act currently provides that for Stafford Loans made on or after July 1, 2003, the interest rate will continue to be adjusted annually, but for any 12-month period commencing on a July 1 will be equal to the bond equivalent rate of securities with a comparable maturity (as established by the Secretary of Education), plus 1% per annum, but not to exceed 8.25% per annum.

*Unsubsidized Stafford Loans.* Unsubsidized Stafford Loans are subject to the same interest rate provisions as Stafford Loans.

*Consolidation Loans.* For a Consolidation Loan for which the application is received by an eligible lender on or after October 1, 1998 but before July 1, 2003, the interest rate is equal to the weighted average of the interest rates on the loans being consolidated, rounded upward to the nearest higher of 1%, but not to exceed 8.25% per annum. The Higher Education Act currently provides that for a Consolidation Loan for which the application is received by an eligible lender on or after July 1, 2003, the interest rate will be equal to the weighted average of the interest rates on the loans being consolidated, rounded upward to the nearest higher 1%. Notwithstanding these general interest rates, the portion, if any, of a Consolidation Loan that repaid a loan made under the Health Education Assistance Loan Program has a different variable interest rate. Such portion is adjusted on July 1 of each year, and is the sum of the average of the T-Bill Rates auctioned for the quarter ending on the preceding June 30, plus 3.0%, without any cap on the interest rate. For a discussion of required payments that reduce the return on Consolidation Loans, see “—Fees—Rebate Fees on Consolidation Loans” below.

*PLUS Loans.* For PLUS Loans disbursed on or after July 1, 1998, the interest rate will be based on 91-day Treasury Bills plus 3.1% not to exceed 9%.

### *Loan Limits*

Stafford Loans and Unsubsidized Stafford Loans are subject to limits as to the maximum principal amount, both with respect to a given year and in the aggregate. Such loans are also limited to the difference between the cost of attendance and the other aid available to the student. Stafford Loans are also subject to limits based upon the needs analysis as described above under “—Eligibility—Stafford Loans.” Additional limits are described below.

A graduate or professional student may borrow up to \$8,500 in subsidized Stafford Loans and an additional \$10,000 in unsubsidized Stafford Loans in an academic year. The maximum aggregate amount of Stafford Loans for a graduate and professional student, including loans for undergraduate education, is \$138,500. The Secretary is authorized to increase the limits applicable to graduate and professional students who are pursuing programs which the Secretary determines to be exceptionally expensive. For example, the limit now applicable to medical students is approximately \$46,000 per academic year, with a maximum aggregate limit of \$189,125.

### *Repayment*

Except for loans to certain new borrowers on or after October 7, 1998, Stafford and Unsubsidized Stafford loans generally must provide for repayment of principal in periodic installments over a period of not more than 10 years. A Consolidation Loan must be repaid

during a period agreed to by the borrower and lender, subject to maximum repayment periods which vary depending upon the principal amount of the borrower's outstanding student loans (but no longer than 30 years). A lender must offer the borrower of a Stafford Loan or an Unsubsidized Stafford Loan, not more than six months prior to the date on which the borrower's first payment is due, the option of repaying the loan in accordance with a standard, graduated, income-sensitive, or extended repayment schedule established by the lender in accordance with regulations of the Secretary of Education. The borrower may choose from:

(a) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time, not to exceed 10 years;

(b) a graduated repayment plan paid over a fixed period of time, not to exceed 10 years;

(c) an income-sensitive repayment plan, with income-sensitive repayment amounts paid over a fixed period of time, not to exceed 10 years (except that use of income-sensitive repayment schedules may extend the ten-year maximum term for up to five years); and

(d) for new borrowers on or after October 7, 1998 who accumulate outstanding loans under the FFEL Program totaling more than \$30,000, an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period of time, not to exceed 25 years.

If a borrower does not select a repayment plan, the lender shall provide the borrower with a standard repayment plan. Once a repayment plan is established, the borrower may annually change the selection of the plan. In addition, lenders of Consolidation Loans are required to establish graduated or income-sensitive repayment schedules.

The repayment period commences not more than six months after the borrower ceases to pursue at least a half-time course of study in the case of Stafford Loans and Unsubsidized Stafford Loans (the six month period is the "Grace Period") and on the date of final disbursement of the loan in the case of Consolidation Loans. The six month Grace Period excludes any period not in excess of three years during which a borrower who is a member of the Armed Forces reserves is called or ordered to active duty for a period of more than 30 days (such period of exclusion includes the period necessary to resume enrollment at the borrower's next available regular enrollment period). During periods in which repayment of principal is required, payments of principal and interest must in general be made at a rate of not less than the greater of \$600 per year (except that a borrower and lender may agree at any time before or during the repayment period that repayment may be at a lesser rate) or the interest that accrues during the year. A borrower may agree, with concurrence of the lender, to repay the loan in less than five years with the right subsequently to extend his minimum repayment period to five years. Borrowers are entitled to accelerate, without penalty, the repayment of all or any part of the loan.

No principal repayments need be made during certain periods of deferment prescribed by the Higher Education Act ("Deferment Periods"). For loans to a borrower who first obtained a loan on or after July 1, 1993, deferments are available (a) during any period that the borrower is

pursuing at least a half-time course of study at an eligible institution or a course of study pursuant to a graduate fellowship program or rehabilitation training program approved by the Secretary of Education, (b) during a period not exceeding three years while the borrower is seeking and unable to find full-time employment, and (c) during a period not in excess of three years for any reason which the lender determines, in accordance with regulations under the Higher Education Act, has caused or will cause the borrower economic hardship. Economic hardships include working full time and earning an amount not in excess of the greater of the minimum wage or the poverty line for a family of two, and serving as a volunteer in the Peace Corps. Additional categories of economic hardship are based on the relationship between a borrower's educational debt burden and his or her income. Deferment Periods extend the maximum repayment periods.

The Higher Education Act also provides for periods of forbearance during which the borrower, in case of temporary financial hardship, may defer any payments (a "Forbearance Period"). A borrower is entitled to forbearance during such period as the borrower is participating in a medical or dental residency and is not eligible for a deferment. A borrower is also entitled to forbearance for a period not to exceed three years while the borrower's debt burden under Title IV of the Higher Education Act (which includes the FFEL Program) equals or exceeds 20% of the borrower's gross income, and also is entitled to forbearance while he or she is serving in a qualifying medical or dental internship program or in a "national service position" under the National and Community Service Trust Act of 1993. In addition, mandatory administrative forbearances are provided when exceptional circumstances such as a local or national emergency or military mobilization exist; or when the geographical area in which the borrower or endorser resides has been designated a disaster area by the President of the United States or Mexico, the Prime Minister of Canada, or the governor of a state. A lender is authorized to grant forbearance for up to 60 days if the lender reasonably determines that such a suspension of collection activity is warranted following a borrower's request for deferment, forbearance, a change in repayment plan, or a request to consolidate loans, in order to collect or process appropriate supporting documentation related to the request (during which period interest shall accrue but not be capitalized). In other circumstances, forbearance is at the lender's option. Such forbearance also extends the maximum repayment periods.

As described under "—Contracts with Guarantee Agencies—Federal Interest Subsidy Payments" below, the Secretary of Education makes interest payments on behalf of the borrower of certain eligible loans while the borrower is in school and during Grace and Deferment Periods. Interest that accrues during Forbearance Periods and, if the loan is not eligible for Interest Subsidy Payments, while the borrower is in school and during the Grace and Deferment Periods, may be paid monthly or quarterly or capitalized (added to the principal balance) not more frequently than quarterly. Interest on Unsubsidized Stafford Loans disbursed on or after October 7, 1998, that accrues during such periods, however, may be capitalized only when the loan enters repayment, at the expiration of the Grace Period (if the loan qualifies for Grace Period), the Deferment Period or the Forbearance Period, or when the borrower defaults. NorthStar's practice is to capitalize interest once at the time the loan enters repayment after the Grace Period and again after any Deferment Period or Forbearance Period.

The Secretary of Education has promulgated regulations which will apply the new capitalization rules that apply to Unsubsidized Stafford Loans disbursed on or after October 7,

1998, to Stafford Loans disbursed on or after July 1, 2000 (as they relate to interest accruing during Forbearance Periods not covered by Interest Subsidy Payments). In addition, such regulations will permit capitalization to occur on Unsubsidized Stafford Loans (and Stafford Loans with respect to Forbearance) disbursed on or after July 1, 2000, at the end of each covered period rather than at the end of a series of consecutive covered periods.

### *Disbursement*

Stafford Loans and Unsubsidized Stafford Loans generally must be disbursed in two or more installments, none of which may exceed 50% of the total principal amount of the loan.

### *Fees*

*Guarantee Fee.* A Guarantee Agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which must be deducted proportionately from each installment payment of the proceeds of the loan to the borrower. Presently, GLHEGC waives the guarantee fee and the borrower receives the full principal amount of the loan. Guarantee fees may not currently be charged to borrowers of Consolidation Loans. However, lenders may be charged an insurance fee to cover the costs of increased or extended liability with respect to Consolidation Loans.

*Origination Fee.* The lender is authorized to charge the borrower of a Stafford Loan or Unsubsidized Loan an origination fee in an amount not to exceed 3% of the principal amount of the loan. These fees must be deducted proportionately from each installment payment of the loan proceeds prior to payment to the borrower and are not retained by the lender, but must be passed on to the Secretary of Education. NorthStar, as part of the Borrower Benefit Program, presently pays the origination fee. Effective October 1, 1998, eligible lenders that charge origination fees must assess the same fees to all student borrowers from the same State, unless a borrower demonstrates greater financial need based on income. The Balanced Budget and Deficit Control Act of 1985, as amended (known as the "Gramm-Rudman Law") requires the President to issue a sequester order for any federal fiscal year in which the projected budget exceeds the target for that year. For all FFEL Program loans made during the period when a sequestration order is in effect, origination fees shall be increased by 0.50%.

*Lender Loan Fee.* The lender of any loan under the FFEL Program is required to pay to the Secretary of Education a fee equal to 0.5% of the principal amount of such loan.

The Secretary of Education is authorized to collect from the lender or a subsequent holder of the loan the maximum origination fee authorized to be charged by the lender (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in Special Allowance Payments and Interest Subsidy Payments or directly from the lender or holder.

*Rebate Fee on Consolidation Loans.* The holder of any Consolidation Loan 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.

## *Loan Guarantees*

Under the FFEL Program, Guarantee Agencies are required to guarantee the payment of not less than 98% of the principal amount of loans covered by their respective guarantee programs. For a description of the requirements for loans to be covered by such guarantees, see "Description of the Guarantee Agencies." Under certain circumstances, guarantees may be assumed by the Secretary of Education or another Guarantee Agency. See "—Contracts with Guarantee Agencies" below.

### **Contracts with Guarantee Agencies**

Under the FFEL Program, the Secretary of Education is authorized to enter into guaranty and interest subsidy agreements with Guarantee Agencies. The FFEL Program provides for reimbursements to Guarantee Agencies for default claims paid by Guarantee Agencies, support payments to Guarantee Agencies for administrative and other expenses, advances for a Guarantee Agency's reserve funds, and Interest Subsidy Payments and Special Allowance Payments to the holders of qualifying student loans made pursuant to the FFEL Program. See "Description of the Guarantee Agencies."

Recent Higher Education Act amendments significantly modified requirements regarding Guarantee Agencies' reserves and sources of revenues and authorized the Secretary of Education to enter into agreements with Guarantee Agencies which modify or waive many of the requirements of the FFEL Program covered under existing agreements and otherwise required by the Higher Education Act. See "Description of the Guarantee Agencies—1998 Reauthorization Amendments."

The Secretary of Education has certain oversight powers over Guarantee Agencies. Guarantee Agencies are currently required to maintain their Federal Funds (as hereinafter defined) at a minimum reserve level of at least 0.25 percent of the total amount of all outstanding loans guaranteed by such Agency (excluding certain loans transferred to the Guarantee Agency from an insolvent Guarantee Agency pursuant to a plan of the Secretary of Education). If a Guarantee Agency falls below the required level in two consecutive years, its claims rate exceeds 5% in any year, or the Secretary of Education determines that the Agency's administrative or financial condition jeopardizes its ability to meet its obligations, the Secretary of Education can require the Guarantee Agency to submit and implement a plan by which it will correct such problem(s). If a Guarantee Agency fails to timely submit an acceptable plan or fails to improve its condition, or if the Secretary of Education determines that the Guarantee Agency is in danger of financial collapse, the Secretary of Education may terminate the Guarantee Agency's Federal Reimbursement Contracts. The Secretary of Education also may terminate such Federal Reimbursement Contracts if the Secretary of Education determines that such action is necessary to protect the federal fiscal interest or to ensure continued availability of student loans.

The Secretary of Education is authorized to assume the guarantee obligations of a Guarantee Agency. The Higher Education Act now provides that, if the Secretary terminates a Guarantee Agency's agreements under the FFEL Program, the Secretary shall assume responsibility for all functions of the Guarantee Agency under its program. To that end, the Secretary is authorized, among other options, to transfer the guarantees to another Guarantee

Agency or to assume the guarantees. It also provides that in the event the Secretary has determined that a Guarantee Agency is unable to meet its guarantee obligations, holders of loans guaranteed by such Guarantee Agency may submit claims directly to the Secretary for payment, unless the Secretary has provided for the assumption of such guarantees by another Guarantee Agency.

### *Federal Reimbursement*

A Guarantee Agency's right to receive federal reimbursements for various guarantee claims paid by the Guarantee Agency is governed by the Higher Education Act and various contracts entered into between Guarantee Agencies and the Secretary of Education. See "Description of the Guarantee Agencies—Federal Agreements." Under the Higher Education Act and the Federal Reimbursement Contracts, the Secretary of Education currently agrees to reimburse a Guarantee Agency for the amounts expended by the Guarantee Agency in the discharge of its guarantee obligation (i.e., the unpaid principal balance of and accrued interest on loans guaranteed by the Guarantee Agency, which loans are referred to herein as "guaranteed loans") as a result of the default of the borrower. The Secretary of Education currently agrees to reimburse the Guarantee Agency for up to 98% of the amount expended with respect to guaranteed loans made on or after October 1, 1993 but before October 1, 1998; and 95% of the amount expended with respect to guaranteed loans made on or after October 1, 1998. Depending on the claims rate experience of a Guarantee Agency, such 98% or 95% reimbursement may be reduced as discussed in the formula described below. The Secretary of Education also agrees to reimburse 100% of the unpaid principal plus applicable accrued interest expended by a Guarantee Agency in discharging its guarantee obligation as a result of the bankruptcy, death, or total and permanent disability of a borrower (or in the case of a PLUS Loan, the death of the student on behalf of whom the loan was borrowed), or in certain circumstances, as a result of school closures, or if a school fails to make a refund of loan proceeds which the school owed to a student's lender, which reimbursements are not to be included in the calculations of the Guarantee Agency's Claims Rate experience for the purpose of federal reimbursement under the Federal Reimbursement Contracts.

The formula for computing the percentage of federal reimbursement under the Federal Reimbursement Contracts is not accumulated over a period of years but is measured by the amount of federal reimbursement payments in any one federal fiscal year as a percentage of the original principal amount of loans under the FFEL Program guaranteed by the Guarantee Agency and in repayment at the end of the preceding fiscal year. Under the formula, federal reimbursement payments to a Guarantee Agency in any one fiscal year not exceeding 5% of the original principal amount of loans in repayment at the end of the preceding fiscal year are to be paid by the Secretary of Education at 98% for loans made on or after October 1, 1993 but before October 1, 1998; and 95% for loans made on or after October 1, 1998. Beginning at any time during any fiscal year that federal reimbursement payments exceed 5%, and until such time as they may exceed 9%, of the original principal amount of loans in repayment at the end of the preceding fiscal year, then reimbursement payments on claims submitted during that period are to be paid at 88% for loans made on or after October 1, 1993 but before October 1, 1998; and 85% for loans made on or after October 1, 1998. Beginning at any time during any fiscal year that federal reimbursement payments exceed 9% of the original principal amount of loans in repayment at the end of the preceding fiscal year, then such payments for the balance of that

fiscal year will be paid at 78% for loans made on or after October 1, 1993 but before October 1, 1998; and 75% for loans made on or after October 1, 1998. The original principal amount of loans in repayment for purposes of computing reimbursement payments to a Guarantee Agency means the original principal amount of all loans guaranteed by such Guarantee Agency less: (1) guarantee payments on such loans, (2) the original principal amount of such loans that have been fully repaid, and (3) the original principal amount of such loans for which the first principal installment payment has not become due or such first installment need not be paid because of a Deferment Period.

Under present practice, after the Secretary of Education reimburses a Guarantee Agency for a default claim paid on a guaranteed loan, the Guarantee Agency continues to seek repayment from the borrower. The Guarantee Agency returns to the Secretary of Education payments that it receives from a borrower after deducting and retaining (1) a percentage amount equal to the complement of the reimbursement percentage in effect at the time the loan was reimbursed, and (2) an amount equal to 24% (or 23% beginning on October 1, 2003, and 18.5% in the case of a payment from the proceeds of a Consolidation Loan) of such payments for certain administrative costs. The Secretary of Education may, however, require the assignment to the Secretary of defaulted guaranteed loans, in which event no further collections activity need be undertaken by the Guarantee Agency, and no amount of any recoveries shall be paid to the Guarantee Agency.

A Guarantee Agency may enter into an addendum to its Interest Subsidy Agreement (as hereinafter defined), which addendum provides for the Guarantee Agency to refer to the Secretary of Education certain defaulted guaranteed loans. Such loans are then reported to the Internal Revenue Service to "offset" any tax refunds which may be due any defaulted borrower. To the extent that the Guarantee Agency has originally received less than 100% reimbursement from the Secretary of Education with respect to such a referred loan, the Guarantee Agency will not recover any amounts subsequently collected by the federal government which are attributable to that portion of the defaulted loan for which the Guarantee Agency has not been reimbursed.

#### *Rehabilitation of Defaulted Loans*

Under Section 428F of the Higher Education Act, the Secretary of Education is authorized to enter into an agreement with a Guarantee Agency pursuant to which the Guarantee Agency shall sell defaulted loans that are eligible for rehabilitation to an eligible lender. The Guarantee Agency shall repay the Secretary of Education an amount equal to 81.5% of the then current principal balance of such loan, multiplied by the reimbursement percentage in effect at the time the loan was reimbursed. The amount of such repayment shall be deducted from the amount of federal reimbursement payments for the fiscal year in which such repayment occurs, for purposes of determining the reimbursement rate for that fiscal year.

For a loan to be eligible for rehabilitation, the Guarantee Agency must have received consecutive payments for 12 months of amounts owed on such loan. Upon rehabilitation, a loan is eligible for all the benefits under the Higher Education Act for which it would have been eligible had no default occurred (except that a borrower's loan may only be rehabilitated once).



### *Eligibility for Federal Reimbursement*

Generally, Guarantee Agencies must pay claims only for loans that are eligible for reimbursement payments from the Secretary of Education. See “Description of the Guarantee Agencies—General.” To be eligible for federal reimbursement payments, guaranteed loans must be made by an eligible lender under the applicable Guarantee Agency’s Guarantee program, which must meet requirements prescribed by the rules and regulations promulgated under the Higher Education Act, including the borrower eligibility, loan amount, disbursement, interest rate, repayment period and guarantee fee provisions described herein and the other requirements set forth in Section 428(b) of the Higher Education Act.

Under the Higher Education Act, a guaranteed loan must be delinquent for 270 days if it is repayable in monthly installments or 330 days if it is payable in less frequent installments before a lender may obtain payment on a guarantee from the Guarantee Agency. The Guarantee Agency must pay the lender for the defaulted loan prior to submitting a claim to the Secretary of Education for reimbursement. As a prerequisite to entitlement to payment on the guarantee by the Guarantee Agency, and in turn payment of reimbursement by the Secretary of Education, the lender must have exercised reasonable care and diligence in making, servicing and collecting the guaranteed loan. Generally, these procedures require that completed loan applications be processed, a determination of whether an applicant is an eligible borrower attending an eligible institution under the Higher Education Act be made, the borrower’s responsibilities under the loan be explained to him or her, the promissory note evidencing the loan be executed by the borrower and that the loan proceeds be disbursed by the lender in a specified manner. After the loan is made, the lender must establish repayment terms with the borrower, properly administer deferments and forbearances and credit the borrower for payments made. If a borrower becomes delinquent in repaying a loan, a lender must perform certain collection procedures (primarily telephone calls, demand letters, skiptracing procedures and requesting assistance from the applicable Guarantee Agency) that vary depending upon the length of time a loan is delinquent.

### **Federal Interest Subsidy Payments**

Interest Subsidy Payments are interest payments paid with respect to an eligible loan during the period prior to the time that the loan enters repayment and during Grace and Deferment Periods. The Secretary of Education and the Guarantee Agencies entered into the Interest Subsidy Agreements as described in “Description of the Guarantee Agencies—Federal Agreements,” whereby the Secretary of Education agrees to pay Interest Subsidy Payments to the holders of eligible guaranteed loans for the benefit of students meeting certain requirements, subject to the holders’ compliance with all requirements of the Higher Education Act. Only Stafford Loans, and those portions of the Consolidation Loans that repay Stafford Loans or similar subsidized loans made under the direct loan program are eligible for Interest Subsidy Payments. In addition, to be eligible for Interest Subsidy Payments, guaranteed loans must be made by an eligible lender, and must meet requirements prescribed by the rules and regulations promulgated under the Higher Education Act, including the borrower eligibility, loan amount, disbursement, interest rate, repayment period and guarantee fee provisions described herein and the other requirements set forth in Section 428(b) of the Higher Education Act.

The Secretary of Education makes Interest Subsidy Payments quarterly on behalf of the borrower to the holder of a guaranteed loan in a total amount equal to the interest which accrues on the unpaid principal amount prior to the commencement of the repayment period of the loan or during any Deferment Period. A borrower may elect to forego Interest Subsidy Payments, in which case the borrower is required to make interest payments.

#### *Federal Advances*

Pursuant to agreements entered into between the Guarantee Agencies and the Secretary of Education under Sections 422 and 422(c) of the Higher Education Act, the Secretary of Education was authorized to advance moneys from time to time to the Guarantee Agencies for the purpose of establishing and strengthening the Guarantee Agencies' reserves. Section 422(c) currently authorizes the Secretary of Education to make advances to Guarantee Agencies in various circumstances, on terms and conditions satisfactory to the Secretary, including if the Secretary is seeking to terminate the Guarantee Agency's reimbursement contract or assume the Guarantee Agency's functions, to assist the Guarantee Agency in meeting its immediate cash needs or to ensure the uninterrupted payment of claims.

#### **Federal Special Allowance Payments**

The Higher Education Act provides for the payment by the Secretary of Education of additional subsidies, called Special Allowance Payments, to holders of qualifying student loans. The amount of the Special Allowance Payments, which are made on a quarterly basis, is computed by reference to the average of the bond equivalent rates of the 91-day Treasury bills auctioned during the preceding quarter (the "T-Bill Rate"), or by reference to the average of the bond equivalent rates of the quotes of the 3-month commercial paper (financial) rates in effect for each of the days in the preceding calendar quarter, as reported by the Federal Reserve in Publication H-15 or its successor (the "Commercial Paper Rate"). The quarterly rate for Special Allowance Payments:

(a) for Stafford and Unsubsidized Stafford Loans made before July 1, 1998 is computed by subtracting the applicable interest rate on such loans from the T-Bill Rate, adding 2.5% for loans that are in-school, grace or deferment and 3.10% for loans that are in repayment, and dividing the resulting rate by four;

(b) for Stafford and Unsubsidized Stafford Loans made on or after July 1, 1998 and before January 1, 2000, is computed by subtracting the applicable interest rate on such loans from the T-Bill Rate, adding 2.2% prior to the time such loans enter repayment and during any Deferment Periods, and 2.8% while such loans are in repayment, and dividing the resulting rate by four;

(c) for Stafford and Unsubsidized Stafford Loans made on or after January 1, 2000 and before July 1, 2003, is computed by subtracting the applicable interest rate on such loans from the Commercial Paper Rate, adding 1.74% prior to the time such loans enter repayment and during any Deferment Periods, and 2.34% while such loans are in repayment, and dividing the resulting rate by four; and

(d) for Consolidation Loans made on or after January 1, 2000 and before July 1, 2003, is computed by subtracting the applicable interest rate on such loans from the Commercial Paper Rate, adding 2.64%, and dividing the resulting rate by four.

For loans other than Consolidation Loans made on or after July 1, 2003, the special allowance formula is to be revised similarly to the manner in which the applicable interest rate formula is revised, as described above under “—Loan Terms—Interest Rates—Stafford Loans.”

For Consolidation Loans for which the application is received on or after January 1, 2000 and before July 1, 2003, Special Allowance Payments are only made for quarters during which the Commercial Paper Rate plus 2.64% exceeds the applicable interest rate on such loans. The portion, if any, of a Consolidation Loan that repaid a loan made under the Health Education Assistance Loan Program is ineligible for Special Allowance Payments.

The Higher Education Act provides that if Special Allowance Payments or Interest Subsidy Payments have not been made within 30 days after the Secretary of Education receives an accurate, timely and complete request from the holder of FFELP Loans, the special allowance payable to such holder shall be increased by an amount equal to the daily interest accruing on the Special Allowance Payments and Interest Subsidy Payments due the holder.

Special Allowance Payments and Interest Subsidy Payments are reduced by the amount which the lender is authorized or required to charge as an origination fee, as described above under “—Loan Terms—Fees—Origination Fee.” In addition, the amount of the lender loan fee described above under “—Loan Terms—Fees—Lender Loan Fees” is collected by offset to Special Allowance Payments and Interest Subsidy Payments.

### **Federal Student Loan Insurance Fund**

The Higher Education Act authorizes the establishment of a Student Loan Insurance Fund by the Federal government for making the federal insurance and the federal reimbursement payments on defaulted student loans to Guarantee Agencies. If moneys in the fund are insufficient to make the federal payments on defaults of such loans, the Secretary of Education is authorized, to the extent provided in advance by appropriation acts, to issue to the Secretary of the Treasury obligations containing terms and conditions prescribed by the Secretary of Education and approved by the Secretary of the Treasury, bearing interest at a rate determined by the Secretary of the Treasury. The Secretary of the Treasury is authorized and directed by the Higher Education Act to purchase such obligations.

### **Direct Loans**

The Higher Education Act authorizes a program of “direct loans” (the “Federal Direct Student Loan Program”) originated by schools with funds provided by the Secretary of Education. Under the Federal Direct Student Loan Program, the Secretary of Education enters into agreements with schools, or origination agents in lieu of schools, to disburse loans with funds provided by the Secretary. Participation in the program by schools is voluntary.

The loan terms are generally the same under the Federal Direct Student Loan Program as under the FFEL Program. At the discretion of the Secretary of Education, students attending

schools that participate in the Federal Direct Student Loan Program (and their parents) may still be eligible for participation in the FFEL Program, though no borrower could obtain loans under both programs for the same period of enrollment.

It is difficult to predict the future impact of the Federal Direct Student Loan Program. There is no way to accurately predict the number of schools that will participate in future years, or, if the Secretary authorizes students attending participating schools to continue to be eligible for FFELP Loans, how many students will seek loans under the Federal Direct Student Loan Program instead of the FFEL Program. In addition, it is impossible to predict whether future legislation will eliminate, limit or expand the Federal Direct Student Loan Program or the FFEL Program.

## **DESCRIPTION OF THE GUARANTEE AGENCIES**

### **General**

All the Initial Financed FFELP Loans, are guaranteed by Great Lakes Higher Education Guaranty Corporation ("GLHEGC"). Under the Indenture, Eligible Loans may be guaranteed by any Guarantee Agency, and therefore, Financed Student Loans acquired in the future may include FFELP Loans guaranteed by other Guarantee Agencies.

A Guarantee Agency guarantees loans made to students or parents of students by lending institutions such as banks, credit unions, savings and loan associations, certain schools, pension funds and insurance companies. A Guarantee Agency generally purchases defaulted student loans which it has guaranteed from its cash and reserves (generally referred to herein as its "Guarantee Fund"). A lender may submit a default claim to the Guarantee Agency after the student loan has been delinquent for at least 270 days. The default claim package must include all information and documentation required under the FFEL Program regulations and the Guarantee Agency's policies and procedures. Under the Guarantee Agencies' current procedures, assuming that the default claim package complies with the Guarantee Agency's loan procedures manual or regulations, the Guarantee Agency pays the lender for a default claim within 90 days of the lender's filing the claim with the Guarantee Agency. The Guarantee Agency will pay the lender interest accrued on the loan for up to 450 days after delinquency. The Guarantee Agency must file a reimbursement claim with the Department of Education within 45 days after the Guarantee Agency has paid the lender for the default claim.

In general, a Guarantee Agency's Guarantee Fund has been funded principally by administrative cost allowances paid by the Secretary of Education, guarantee fees paid by lenders (the cost of which may be passed on to borrowers), investment income on moneys in the Guarantee Fund, and a portion of the moneys collected from borrowers on guaranteed loans that have been reimbursed by the Secretary of Education to cover the Guarantee Agency's administrative expenses.

The Secretary of Education is required to demand payment on September 1, 2002 of a total of one billion dollars from all the Guarantee Agencies participating in the FFEL Program. The amounts to be demanded of each Guarantee Agency shall be determined in accordance with formulas included in the Higher Education Act. Each Guarantee Agency is required to deposit

funds in a restricted account in installments, beginning in the federal fiscal year ended September 30, 1998, to provide for such payment. Amendments to the Higher Education Act adopted in 1998 included significant changes affecting the financial structure of Guarantee Agencies in the FFEL Program and their sources of revenue. See “—1998 Reauthorization Amendments” below.

The adequacy of a Guarantee Agency’s Guarantee Fund to meet its guarantee obligations with respect to existing student loans depends, in significant part, on its ability to collect revenues generated by new loan guarantees. The Federal Direct Student Loan Program may adversely affect the volume of new loan guarantees. Future legislation may make additional changes to the Higher Education Act that would significantly affect the revenues received by Guarantee Agencies and the structure of the guarantee agency program. There can be no assurance that relevant federal laws, including the Higher Education Act, will not be further changed in a manner that may adversely affect the ability of a Guarantee Agency to meet its guarantee obligations. For a more complete description of provisions of the Higher Education Act that relate to payments described in this paragraph or affect the funding of a Guarantee Fund, see “Description of the FFEL Program.”

### **Department of Education Oversight**

The Higher Education Act gives the Secretary of Education various oversight powers over Guarantee Agencies. These include requiring a Guarantee Agency to maintain its Guarantee Fund at a certain required level and taking various actions relating to a Guarantee Agency if its administrative and financial condition jeopardizes its ability to meet its obligations. These actions include, among others, providing advances to the Guarantee Agency, terminating the Guarantee Agency’s Federal Reimbursement Contracts, assuming responsibility for all functions of the Guarantee Agency, and transferring the Guarantee Agency’s guarantees to another Guarantee Agency or assuming such guarantees. The Higher Education Act provides that a Guarantee Agency’s Guarantee Fund (except to the extent applicable to the “Operating Fund” described below under “—1998 Reauthorization Amendments”) shall be considered to be the property of the United States to be used in the operation of the FFEL Program or the Federal Direct Student Loan Program, and, under certain circumstances, the Secretary of Education may demand payment of amounts in the Guarantee Fund.

Pursuant to Section 432(o) of the Higher Education Act, if the Department of Education has determined that a Guarantee Agency is unable to meet its insurance obligations, the holders of loans guaranteed by such Guarantee Agency may submit claims directly to the Department of Education and the Department of Education is required to pay the full guarantee payment due with respect thereto in accordance with guarantee claim processing standards no more stringent than those applied by the Guarantee Agency. The Department of Education’s obligation to pay guarantee claims directly in this fashion, however, is contingent upon the Department of Education making the determination referred to above. There can be no assurance that the Department of Education would ever make such a determination with respect to a Guarantee Agency or, if such a determination were made, that such determination or the ultimate payment of such guarantee claims would be made in a timely manner. See “Description of the FFEL Program.”

There are no assurances as to the Secretary of Education's actions if a Guarantee Agency encounters administrative or financial difficulties or that the Secretary of Education will not demand that a Guarantee Agency transfer additional portions or all of its Guarantee Fund to the Secretary of Education.

### **Federal Agreements**

Each Guarantee Agency and the Secretary of Education have entered into Federal Reimbursement Contracts pursuant to Section 428(c) of the Higher Education Act (which include, for older Guarantee Agencies, a supplemental contract pursuant to former Section 428A of the Higher Education Act), which provide for the Guarantee Agency to receive reimbursement of a portion of insurance payments that the Guarantee Agency makes to eligible lenders with respect to loans guaranteed by the Guarantee Agency prior to the termination of the Federal Reimbursement Contracts or the expiration of the authority of the Higher Education Act. The portion of reimbursement received by the Guarantee Agencies ranges from 78% to 98% for loans made on or after October 1, 1993 but before October 1, 1998; and 75% to 95% for loans made on or after October 1, 1998. See “—Effect of Annual Claims Rate” below. The Federal Reimbursement Contracts provide for termination under certain circumstances and also provide for certain actions short of termination by the Secretary of Education to protect the federal interest. See “Description of the FFEL Program—Contracts with Guarantee Agencies—Federal Reimbursement.”

In addition to guarantee benefits, qualified Stafford Loans (and certain Consolidation Loans) acquired under the FFEL Program benefit from certain federal subsidies. Each Guarantee Agency and the Secretary of Education have entered into an interest subsidy agreement under Section 428(b) of the Higher Education Act (as amended, an “Interest Subsidy Agreement”), which entitles the holders of eligible loans guaranteed by the Guarantee Agency to receive Interest Subsidy Payments from the Secretary of Education on behalf of certain students while the student is in school, during a six to twelve month Grace Period after the student leaves school, and during certain Deferment Periods, subject to the holders' compliance with all requirements of the Higher Education Act. See “Description of the FFEL Program—Contracts with Guarantee Agencies—Federal Interest Subsidy Payments” for a more detailed description of the Interest Subsidy Payments.

United States Courts of Appeals have held that the federal government, through subsequent legislation, has the right unilaterally to amend the contracts between the Secretary of Education and the Guarantee Agencies described herein. Amendments to the Higher Education Act since 1986 (1) abrogated certain rights of guarantee agencies under contracts with the Secretary of Education relating to the repayment of certain advances from the Secretary of Education, (2) authorized the Secretary of Education to withhold reimbursement payments otherwise due to certain guarantee agencies until specified amounts of such guarantee agencies' reserves had been eliminated, (3) added new reserve level requirements for guarantee agencies and authorized the Secretary of Education to terminate the Federal Reimbursement Contracts under circumstances that did not previously warrant such termination, and (4) expanded the Secretary of Education's authority to terminate such contracts and to seize guarantee agencies' reserves. There can be no assurance that future legislation will not further adversely affect the

rights of the Guarantee Agencies, or holders of loans guaranteed by a Guarantee Agency under such contracts.

### **Effect of Annual Claims Rate**

A Guarantee Agency's ability to meet its obligation to pay default claims on Financed Eligible Loans will depend on the adequacy of its Guarantee Fund, which will be affected by the default experience of all lenders under the Guarantee Agency's Guarantee program. A high default experience among lenders participating in a Guarantee Agency's Guarantee program may cause the Guarantee Agency's Claims Rate (as defined below) for its Guarantee program to exceed the 5% and 9% levels described below, and result in the Secretary of Education reimbursing the Guarantee Agency at lower percentages of default claims payments made by the Guarantee Agency.

In general, Guarantee Agencies are currently entitled to receive reimbursement payments under the Federal Reimbursement Contracts in amounts that vary depending on the Claims Rate experience of the Guarantee Agency. The "Claims Rate" is computed by dividing total default claims since the previous September 30 by the total original principal amount of the Guarantee Agency's guaranteed loans in repayment on such September 30. On October 1 of each year the Claims Rate begins at zero, regardless of the experience in preceding years. The reimbursement percentages for loans made on or after October 1, 1993, but before October 1, 1998, are 98%, 88% and 78%, respectively. The reimbursement percentages for loans made on or after October 1, 1998 are further reduced to 95%, 85% and 75%, respectively. See "Description of the FFEL Program—Federal Reimbursement."

### **1998 Reauthorization Amendments**

#### *General*

Amendments to the Higher Education Act enacted October 7, 1998 (the "1998 Reauthorization Amendments") made various changes to the Higher Education Act affecting Guarantee Agencies in the FFEL Program, including the following:

- (a) each Guarantee Agency was required to establish a federal student loan reserve fund (the "Federal Fund") and an agency operating fund (the "Operating Fund"), each of which must be funded, invested and used as prescribed by the 1998 Reauthorization Amendments;
- (b) each Guarantee Agency's sources of revenue have been modified;
- (c) additional reserves of Guarantee Agencies have been recalled; and
- (d) the Secretary of Education and a Guarantee Agency may enter into "voluntary flexible agreements" in lieu of existing agreements.

The following briefly summarizes these changes.

### *The Federal Fund and the Operating Fund*

Each Guarantee Agency was required to deposit prior to December 7, 1998, all funds, securities and other liquid assets contained in its reserve fund into the Federal Fund that it established. The Federal Fund, and any nonliquid asset (such as a building or equipment) developed or purchased by the Guarantee Agency in whole or in part with federal reserve funds of the Guarantee Agency, shall be considered to be property of the United States (prorated based on the percentage of such asset developed or purchased with federal reserve funds), which must be used in the operation of the FFEL Program to pay lender guarantee claims, to pay Default Aversion Fees (as defined below) into the Guarantee Agency's Operating Fund, and to the extent permitted, to make certain transition payments into the Operating Fund and for certain other uses permitted by the Secretary of Education's regulations. The Secretary of Education may direct a Guarantee Agency, or its officers and directors, to cease any activity involving expenditures, use or transfer of the Federal Fund that the Secretary of Education determines is a misapplication, misuse or improper expenditure of the Federal Fund or the Secretary of Education's share of such asset. A Guarantee Agency is required to maintain in the Federal Fund a minimum reserve level of at least 0.25% of the total amount of all outstanding loans guaranteed by such Agency (excluding certain loans transferred to the Guarantee Agency from an insolvent Guarantee Agency pursuant to a plan of the Secretary of Education).

After the Federal Fund is established, the Guarantee Agency is required to deposit into the Federal Fund all reinsurance payments received from the Secretary of Education; from amounts collected from defaulted borrowers, a percentage amount equal to the complement of the reinsurance percentage in effect when the guarantee payment was made; all insurance premiums collected from borrowers; all amounts received from the Secretary of Education as payment for supplemental pre-claims assistance activity performed prior to October 7, 1998; 70% of administrative cost allowances received from the Secretary of Education after October 7, 1998 for loans guaranteed prior to that date; and other receipts specified in regulations of the Secretary of Education. Funds transferred to the Federal Fund are required to be invested in low-risk securities and all earnings from the Federal Fund shall be the sole property of the United States.

Each Guarantee Agency also was required to establish its Operating Fund prior to December 7, 1998. The 1998 Reauthorization Amendments include various transition rules allowing a Guarantee Agency to transfer certain transition amounts from its Federal Fund to its Operating Fund from time to time during the first three years following the establishment of the Operating Fund for use in the performance of the Guarantee Agency's duties under the FFEL Program. In determining the amounts that it may transfer, the Guarantee Agency must ensure that sufficient funds remain in the Federal Fund to pay lender claims within the required time periods and to meet reserve recall requirements. In general, the transition rules require repayment to the Federal Fund of transition amounts transferred therefrom to the Operating Fund.

The Operating Fund shall be considered to be the property of the Guarantee Agency, *except for transition amounts transferred from the Federal Fund*. The Secretary of Education may not regulate the uses or expenditure of moneys in the Operating Fund (but may require necessary reports and audits), except during any period in which transition funds are owed to the



Federal Fund. During such period, moreover, moneys in the Operating Fund may only be used for expenses related to the FFEL Program.

Funds deposited into the Operating Fund shall be invested at the discretion of the Guarantee Agency in accordance with prudent investor standards (except that transition amounts transferred to the Operating Fund from the Federal Fund must be invested in the same manner as amounts in the Federal Fund). After establishing the Operating Fund, the Guarantee Agency shall deposit into the Operating Fund: Loan Processing and Issuance Fees and Account Maintenance Fees (as such terms are defined below) paid by the Secretary of Education; Default Aversion Fees; 30% of administrative cost allowances received from the Secretary of Education after October 7, 1998 for loans guaranteed prior to that date; 24% (decreasing to 23% on and after October 1, 2003) of amounts collected on defaulted loans, excluding such collected amounts required to be transferred to the Federal Fund; and other receipts specified in regulations of the Secretary of Education.

In general, funds in the Operating Fund shall be used by the Guarantee Agency for application processing, loan disbursement, enrollment and repayment status management, default aversion activities, default collection activities, school and lender training, financial aid awareness and related outreach activities, compliance monitoring, and other student financial aid related activities, as selected by the Guarantee Agency. The Guarantee Agency may transfer funds from the Operating Fund to the Federal Fund, however, such transfers are irrevocable and transferred funds would become the property of the United States.

#### *Modifications in Sources of Revenue*

The 1998 Reauthorization Amendments made the following modifications with respect to principal sources of Guarantee Agency revenues:

(a) reduced reinsurance payment percentages for loans made on and after October 1, 1998 as described above under “—Effect of Annual Claims Rate:”

(b) reduced the percentage of the amount of collections on defaulted loans that may be retained by the Guarantee Agency from 27% to 24%, with a further reduction to 23% on and after October 1, 2003;

(c) established a loan processing and issuance fee (the “Loan Processing and Issuance Fee”), payable by the Secretary of Education on a quarterly basis, equal to: (i) for loans originated during fiscal years beginning on or after October 1, 1998 and before October 1, 2003, 0.65% of the total principal amount of loans on which insurance was issued under the FFEL Program during such fiscal year by the Guarantee Agency, and (ii) for loans originated during fiscal years beginning on or after October 1, 2003, 0.40% of the total principal amount of loans on which insurance was issued under the FFEL Program during such fiscal year by the Guarantee Agency; eliminated the discretionary administrative cost allowances or expenses which had been paid at 0.85% of the total principal amount of loans on which insurance was issued under the FFEL Program during a fiscal year;

(d) established a default aversion fee (the "Default Aversion Fee") relating to default aversion activities required to be undertaken by the Guarantee Agency, payable on a monthly basis from the Federal Fund to the Operating Fund, in an amount equal to 1% of the total unpaid principal and accrued interest on a loan for which a default claim has not been paid as a result of the loan being brought into current repayment status on or before the 300th day after the loan becomes 60 days delinquent; and

(e) established an account maintenance fee (the "Account Maintenance Fee"), payable by the Secretary of Education on a quarterly basis (unless certain nationwide caps are met, in which case the fee shall be transferred from the Federal Fund to the Operating Fund), equal to (i) for fiscal years 1999 and 2000, 0.12% of the original principal amount of outstanding loans on which insurance was issued under the FFEL Program, and (ii) for fiscal years 2001, 2002 and 2003, 0.10% of the original principal amount of outstanding loans on which insurance was issued under the FFEL Program.

#### *Additional Recalls of Reserves*

The 1998 Reauthorization Amendments directed the Secretary of Education to demand payment from all the Guarantee Agencies participating in the FFEL Program of amounts held in their Federal Funds in fiscal years 2002 aggregating \$85 million; 2006 aggregating \$82.5 million; and 2007 aggregating \$82.5 million. The amounts demanded of each Guarantee Agency are determined in accordance with formulas included in Section 422(i) of the Higher Education Act. If a Guarantee Agency charges the maximum permitted 1% insurance premium, however, the recall may not result in the depletion of such Guarantee Agency's reserve funds below an amount equal to the amount of lender claim payments paid during the 90 days prior to the date of return.

#### *Voluntary Flexible Agreements*

The 1998 Reauthorization Amendments authorized the Secretary of Education to enter into agreements with Guarantee Agencies which modify or waive many of the requirements of the FFEL Program covered under existing agreements and otherwise required by the Higher Education Act, including the sources and uses of revenues and funds of Guarantee Agencies. The 1998 Reauthorization Amendments authorize the Secretary of Education to enter into voluntary flexible agreements with up to six Guarantee Agencies during federal fiscal years 1999, 2000 and 2001, and with any Guarantee Agency or consortium thereof beginning in federal fiscal year 2002.

*The description which follows of the Guarantee Agency which has guaranteed FFELP Loans included in the Initial Financed Student Loans are based solely on information furnished by the Guarantee Agency, and has not been independently verified by NorthStar. The inclusion of this information is not, and should not be construed as, a representation by NorthStar as to its accuracy or completeness or otherwise.*

#### **Great Lakes Higher Education Guaranty Corporation**

GLHEGC is the designated guarantor for the State of Wisconsin, State of Minnesota, State of Ohio, Puerto Rico and the Virgin Islands. (As of December 31, 1997, GLHEGC

assumed the designated guarantor responsibility for the State of Minnesota from its NorthStar affiliate and merged NorthStar's guarantee agency operations with GLHEGC's own guarantee agency operations under the Higher Education Act).

Guarantee Volume. GLHEGC guaranteed a total of \$1,070.7 million in federal fiscal year 1994-95, \$1,172.6 million in federal fiscal year 1995-96, \$1,794.6 million in federal fiscal year 1996-97 (including NorthStar), \$1,619.4 million in federal fiscal year 1997-98, and \$1,746.5 million in federal fiscal year 1998-99.

(Source: U.S. Department of Education Loan Program Data Book 1995 through 1996, 4<sup>th</sup> Quarter ED Volume Report for 1997, and ED Form 1130 for 1998 and 1999.)

Reserve Ratio. Following are GLHEGC's reserve fund levels as calculated in accordance with 34 CFR 682.410(a)(10) for the last five fiscal years ending September 30.

<u>Fiscal Year</u>	<u>Federal Guaranty Reserve Fund Balance</u>	<u>Total Loans Outstanding*</u>	<u>Federal Guaranty Reserve Fund Level</u>
1995	62,438,430	5,441,840,211	1.15%
1996	71,964,949	6,048,428,342	1.19%
1997	81,625,095	6,868,162,970	1.19%
1998	107,534,663	7,493,233,844	1.44%
1999	71,863,200	8,465,616,810	.85%

\*Does not include loans transferred from Higher Education Assistance Foundation, NorthStar, Ohio Student Aid Commission or Puerto Rico guarantee agencies. (Source: ED Forms 1130 and 1189 Reports submitted to U.S. Department of Education for 1995-98. For 1999, under the Higher Education Act, the federal guaranty reserve fund balance is based on net assets with a reserve requirement of .25% as compared to .50% for prior years.)

Recovery Rate. The recovery rate is a key performance indicator in evaluating the effectiveness of a student loan guarantor's collection efforts after the loans have defaulted. The rate is determined by dividing the amount recovered by the cumulative amount of default claims paid by the guarantee agency. Following are GLHEGC's recovery rates as of the end of each of the last five fiscal years for which data is available, the national averages for each year and GLHEGC's recovery rate ranking among all student loan guarantors.

<u>Fiscal Year</u>	<u>Great Lakes' Recovery Rate</u>	<u>National Average Recovery Rate</u>	<u>Great Lakes' Ranking</u>
1994	35.2%	39.3%	37
1995	35.8%	40.7%	36
1996	39.8%	43.4%	31
1997	43.9%	45.0%	25
1998	42.9%	48.6%	30
1999	47.6%	54.6%	31

(Source: Joseph Boyd & Associates. Guaranty Agency Report.)

Proprietary Loans. Default rates for proprietary loans have been much higher than default rates for loans made to borrowers attending two-year and four-year schools. GLHEGC's original principal amount of student loans guaranteed and outstanding (in whole or in part) and percentage of proprietary, two-year and four-year guaranteed loans as of September 30, 1999 are set forth below.

<u>School Type</u>	<u>Loans (millions)</u>	<u>Percentage</u>
Two-year	\$ 1.474	8.4%
Four-year	13.533	77.4%
Proprietary	.627	3.6%
Consolidation	<u>1.853</u>	<u>10.6%</u>
	<u>\$17.487</u>	<u>100.0%</u>

(Source: GLHEGC.)

Claims Rate. For the past five fiscal years, GLHEGC's claims rate has not exceeded 3%, and, as a result, the highest allowable reinsurance has been paid on all GLHEGC's claims. GLHEGC's claims rate for fiscal year 1999 was lower than its 1998 claims rate. The actual claims rates are as follows:

<u>Fiscal Year</u>	<u>Claims Rate</u>
1995	3.0%
1996	2.3%
1997	2.1%
1998	1.8%
1999	1.3%

(Source: U. S. Department of Education.)

## DESCRIPTION OF ALTERNATIVE LOANS

### General

The Alternative Loans included in the Initial Financed Student Loans were made by either PNC Bank, N.A. or University National Bank (the "Originating Lender") pursuant to the T.H.E. or the Voyager Loan Programs. The Alternative Loans include several different types of loans: T.H.E. Medical Loans, T.H.E. Law/MBA Loans, Voyager Loans, and T.H.E. National Loans, which are available to graduate, professional and limited undergraduate students at eligible institutions. Bar examination loans are available to law students or recent law graduates to cover the cost of preparing for the bar exam and residency loans are available to medical students to finance the costs involved with obtaining and participating in required residency or postdoctoral programs.

The Alternative Loans are unsecured loans made directly to the student borrowers. In some cases, the borrower may obtain reduced fees if he or she provides a credit-worthy cosigner for the loan.

### Loan Terms

#### *Eligibility*

A student is an Eligible Borrower if the student:

- is enrolled, will enroll or is admitted to an eligible school
- is enrolled or will enroll as at least a half-time student
- is enrolled or will enroll in an eligible academic discipline
- if currently enrolled, is making satisfactory progress toward completion of his or her degree according to the eligible school's published standards
- is a United States citizen or resident alien
- has completed a loan application and promissory note form; and
- satisfies the applicable credit requirements or has been granted a waiver from those credit requirements

The student's credit history shall not show any bankruptcies, foreclosures, repossessions, wage garnishments, skips, open charge-offs, open collection accounts, unpaid tax liens, unpaid judgments, or court proceedings wherein a claim was brought against the student for failure to make payment on an obligation. With regard to educational loans, the student's credit history shall not show any prior educational loan defaults, unless the student has repaid the educational loan in full, or is making satisfactory progress toward repaying the loan. The student is making satisfactory progress if no payments due under the loan are past due and the student has made the past six payments no later than on the day the payments were due. If the educational loan shows prior delinquencies, but the loan(s) are now in a deferred status, this shall not be grounds for denial. With regard to paid charge-offs, tax liens and collection accounts, the student's credit history shall not show any single or combination of paid charge-offs, tax liens and/or collection accounts totaling more than \$150 within the immediately preceding two years. With regard to all of the student's payment obligations, the student's credit history shall show that the student has

had no payments over ninety (90) days past due within the immediately preceding year, no more than one payment over sixty (60) days past due within the immediately preceding year, and no more than three payments over thirty (30) days past due on a given trade line within the immediately preceding year.

#### *Eligible Schools*

A school shall be an eligible school if it is (i) a four year or specifically approved two year degree granting accredited educational institution in the United States or (ii) a foreign school which has been approved for participation in the Federal Family Education Loan Program by the United States Department of Education and for participation in the NorthStar Programs by NorthStar, and has five year average cohort default rates of less than 4.0%. The default rate used for this purpose shall be the default rate experienced by the school which rate is known through the Federal Family Education Loan Program, published HEAL default rates or other means as determined by NorthStar.

#### *Loan Limits*

The annual Alternative Loan limit for any borrower is the cost of education less all other financial aid. For undergraduates, total education debt may not exceed \$75,000. For graduate students other than medical students, total education debt may not exceed \$120,000. For medical students, total education debt may not exceed \$189,125. The bar preparation loan may not exceed \$7,500 and the medical residency loan may not exceed \$10,000. These loan limits may be changed by NorthStar at any time.

#### *Interest*

The interest rates on Medical Alternative Loans is a variable rate equal to the coupon equivalent of the 91-day treasury bill plus 2.5% while the student is in school or residency, and plus 2.85% while the student is in repayment. All other Alternative Loans bear interest at a variable rate equal to the coupon equivalent of the 91-day treasury bill plus 3.25%. The interest rates on all Alternative Loans is adjusted quarterly. The maximum interest rate is 18%.

No interest is due prior to the commencement of the repayment period. Interest that accrues prior to the repayment period and is not otherwise paid is added to the principal balance. Capitalization of interest occurs once at graduation and once upon entering repayment for medical students, and once upon entering repayment for all other students.

#### *Repayment*

The Medical Alternative Loans must be repaid over a twenty-year period, and all other Alternative Loans over a fifteen-year period. The repayment period generally begins nine months after graduation. The beginning of the repayment period for Medical Alternative Loans may be extended up to 36 months following graduation if the student is in a residency or post-doctoral program. Most Medical Alternative Loan borrowers take advantage of this deferral option. Equal monthly payments of principal and interest, with a minimum monthly payment of \$50 amortize the loan over the repayment period.

### *Loan Origination Fees*

Borrowers of Alternative Loans are generally charged two separate origination fees, once when the loan is first disbursed and once again when the loan enters repayment. The chart below sets forth the origination fees payable by borrowers:

<u>Program</u>	<u>Origination Fee Payable on First Disbursement</u>	<u>Origination Fee Payable when Entering Repayment</u>
Medical	4%	3%
Law/MBA without Cosigner	4*	3
Law/MBA with Cosigner	4*	0
National without Cosigner	6	2
National with Cosigner	4	0

\* The origination fee payable on the first disbursement is 6% for a small number of schools in the LAW/MBA program.

## **DESCRIPTION OF SERIES 2000 NOTES**

### **General Terms of the Series 2000 Notes**

The Series 2000 Notes will be issued pursuant to the Indenture and the First Supplemental Indenture. The Series 2000 Notes will be dated as of the date of their initial issuance and, subject to redemption pursuant to the provisions referred to below, will mature on November 1, 2040. The Series 2000 Notes will bear interest, payable on the Business Day following the expiration of each Auction Period, at rates determined as described below under “—Interest Rate on the Series 2000 Notes.” The Series 2000 Notes will be issued in fully registered form, without coupons, and when issued will be registered in the name of Cede & Co., as nominee of DTC. DTC will act as securities depository for the Series 2000 Notes. Individual purchases of the Series 2000 Notes will be made in book-entry form only in the principal amount of \$50,000 or multiples thereof. Purchasers of the Series 2000 Notes will not receive certificates representing their interest in the Series 2000 Notes purchased. See “—Book-Entry-Only System.”

### **Interest Rate on the Series 2000 Notes**

The Initial Interest Rate Adjustment Date for the Series 2000 Notes will be as follows:

Series	Initial Interest Rate Adjustment Date
2000A-1	December 12, 2000
2000A-2	December 19, 2000
2000B	December 12, 2000

The Series 2000 Notes of each series will bear interest to the respective initial interest rate adjustment dates at initial rates established in the Indenture. Thereafter, the Series 2000 Notes will bear interest at the Applicable Interest Rate based on an Auction Period generally consisting of 28 days, subject, in each case, to adjustment as described in “Auction of the Series 2000 Notes—Changes in Auction Terms—Changes in Auction Period or Periods.”

Interest on each series of the Series 2000 Notes will be paid on the Business Day following each Auction Period for such series. For each series of the Series 2000 Notes during the Initial Interest Period and each Auction Period thereafter, interest will accrue daily and will be computed for the actual number of days elapsed on the basis of a year consisting of 365 days, except that, for any leap year, such calculation shall be computed on the basis of a 366 day year.

The Applicable Interest Rate to be borne by each series of the Series 2000 Notes until an Auction Period Adjustment, if any, will be determined for each Auction Period as hereinafter described. The Auction Period that immediately follows the Initial Interest Period for a series of the Series 2000 Notes will commence on and include the Initial Interest Rate Adjustment Date for that series. Each Auction Period thereafter will commence on and include the first day following the expiration of the immediately preceding Auction Period. Each Auction Period for the Series 2000 Notes will terminate on and include Monday of the fourth week following its commencement. The Applicable Interest Rate on each series of the Series 2000 Notes for each Auction Period will be the least of (i) the Maximum Rate in effect for such Auction Period, (ii) the Auction Rate in effect for such Auction Period as determined in accordance with the Auction Procedures described in “Auction of the Series 2000 Notes,” and (iii) 18% per annum or such lesser rate as permitted by the applicable law (the “Maximum Interest Rate”); provided that if, on any Interest Rate Determination Date, an Auction is not held with respect to a series of the Series 2000 Notes for any reason, then the Auction Rate on such series for the next succeeding Auction Period shall be the Maximum Rate.

Notwithstanding the foregoing:

(a) if the ownership of a series of the Series 2000 Notes is no longer maintained in Book-Entry Form, the Auction Rate on the Series 2000 Notes of such series for any Interest Period commencing after the delivery of certificates representing the Series 2000 Notes of such series will equal the Maximum Rate on the Business Day immediately preceding the first day of such subsequent Interest Period; or

(b) if a Payment Default has occurred with respect to a series of the Series 2000 Notes, the Applicable Interest Rate on such series for the Interest Period commencing on or immediately after such Payment Default and for each Interest Period thereafter, to and including the Interest Period, if any, during which, or commencing less than two Business Days after, such Payment Default is cured in accordance with the First Supplemental Indenture, will equal the Non-Payment Rate on the first day of each such Interest Period.

In any event, no Auction will be held on any Auction Date during the pendency of a Payment Default (or on the next Business Day after a Payment Default is cured) or if the Series 2000 Notes are no longer in Book-Entry-Form.



The Trustee is to notify the Holders of Series 2000 Notes of the Applicable Interest Rate with respect to each such series of Series 2000 Notes for each Auction Period on the second Business Day of such Auction Period.

If the Auction Agent no longer determines, or fails to determine, when required, the Applicable Interest Rate with respect to a series of Series 2000 Notes or if, for any reason, such manner of determination is held to be invalid or unenforceable, the Applicable Interest Rate for the next succeeding Interest Period will be the Maximum Rate.

### **Carry-Over Amounts on the Series 2000 Notes**

If the Auction Rate for a series of the Series 2000 Notes is greater than the Maximum Rate, then the Applicable Interest Rate with respect to such series for that Interest Period will be the Maximum Rate. The excess of the amount of interest that would have accrued on the Series 2000 Notes and the Auction Rate over the amount of interest actually accrued at the Maximum Rate will accrue as the Carry-Over Amount. Such determination of the Carry-Over Amount shall be made separately for each series of Series 2000 Notes. Each Carry-Over Amount shall bear interest calculated at a rate equal to One-Month LIBOR (as determined by the Auction Agent on the related Interest Rate Determination Date, provided the Trustee has received notice of One-Month LIBOR from the Auction Agent, and, if the Trustee shall not have received such notice from the Auction Agent, then as determined by the Trustee) from the Interest Payment Date for the Interest Period with respect to which such Carry-Over Amount was calculated, until paid. Any payment in respect of Carry-Over Amount shall be applied, first, to any accrued interest payable thereon and, thereafter, in reduction of such Carry-Over Amount. For purposes of the First Supplemental Indenture, the Indenture and the Series 2000 Notes, any reference to "principal" or "interest" therein shall not include, within the meaning of such words, Carry-Over Amount or any interest accrued on any such Carry-Over Amount. Such Carry-Over Amount shall be separately calculated for each Series 2000 Note of each series by the Trustee during such Interest Period in sufficient time for the Trustee to give notice to each Holder of such Carry-Over Amount as required in the next succeeding sentence. On the Interest Payment Date with respect to which such Carry-Over Amount has been calculated by the Trustee, the Trustee shall give written notice to each Holder of the Carry-Over Amount applicable to such Holder's Series 2000 Note, which written notice may accompany the payment of interest (if paid by check made to each such Holder on such Interest Payment Date) or otherwise shall be mailed on such Interest Payment Date by first-class mail to each such Holder at such Holder's address as it appears on the registration books maintained by the Note Registrar.

The Carry-Over Amount (and interest accrued thereon) on Outstanding Series 2000 Notes of a series shall be paid by the Trustee on the first occurring Interest Payment Date for a subsequent Interest Period with respect to such series if and to the extent that (i) the Eligible Carry-Over Make-Up Amount with respect to such Interest Period is greater than zero, and (ii) moneys in the Collection Fund and Surplus Fund are available on the Monthly Calculation Date immediately preceding the month in which such Interest Payment Date occurs, for transfer to the Interest Account for such purpose in accordance with the priorities and limitations described under "Description of the Indenture—Funds and Accounts—Collection Fund" and "—Surplus Fund," after taking into account all other amounts payable from the Collection Fund and the Surplus Fund as described in such paragraphs on such Monthly Calculation Date. Any Carry-

Over Amount (and any interest accrued thereon) with respect to any Series 2000 Note which is unpaid as of the Maturity of such Series 2000 Note shall be paid to the Holder thereof on the date of such Maturity to the extent that moneys are available therefor in accordance with the provisions described in clause (iii) of the preceding sentence; provided, however, that any Carry-Over Amount (and any interest accrued thereon) which is not so paid on the date of such Maturity shall be cancelled with respect to such Series 2000 Note on the date of such Maturity and shall not be paid on any succeeding Interest Payment Date. To the extent that any portion of the Carry-Over Amount (and any interest accrued thereon) remains unpaid after payment of a portion thereof, such unpaid portion shall be paid in whole or in part until fully paid by the Trustee on the next occurring Interest Payment Date or Dates, as necessary, for a subsequent Interest Period or Periods, if and to the extent that the conditions in the first sentence of this paragraph are satisfied. On any Interest Payment Date or Dates on which the Trustee pays less than all of the Carry-Over Amounts (and any interest accrued thereon) with respect to a Series 2000 Note, the Trustee is required to give notice as set forth in the immediately preceding paragraph to the Holder of such Series 2000 Note of the Carry-Over Amount remaining unpaid on such Series 2000 Note.

The Interest Payment Date on which any Carry-Over Amount (and any interest accrued thereon) for a series of the Series 2000 Notes will be paid is to be determined by the Trustee as described in the immediately preceding paragraph, and the Trustee is to make payment of the Carry-Over Amount (and any interest accrued thereon) in the same manner as it pays interest on the Series 2000 Notes on an Interest Payment Date.

#### **Interest Limited to the Extent Permissible by Law**

In no event shall the cumulative amount of interest paid or payable on a series of Series 2000 Notes exceed the amount permitted by applicable law. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Series 2000 Notes of a series or related documents or otherwise contracted for, charged, reserved, taken or received in connection with the Series 2000 Notes of such series, or if the redemption or acceleration of the maturity of the Series 2000 Notes of such series results in payment to or receipt by the Holder or any former Holder of the Series 2000 Notes of such series of any interest in excess of that permitted by applicable law, then, notwithstanding any provision of the Series 2000 Notes of such series or related documents to the contrary, all excess amounts theretofore paid or received with respect to the Series 2000 Notes of such series shall be credited on the principal balance of the Series 2000 Notes of such series (or, if the Series 2000 Notes of such series have been paid or would thereby be paid in full, refunded by the recipient thereof), and the provisions of the Series 2000 Notes of such series and related documents shall automatically and immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for under the Series 2000 Notes of such series and under the related documents.

Under current Minnesota law, there is no restriction on the interest rate that may be charged for the lending of money evidenced by the Series 2000 Notes.

## **Redemption of the Series 2000 Notes**

The Series 2000 Notes will be subject to redemption as described in this Offering Memorandum under the captions “Description of Series 2000 Notes—Mandatory Redemption” and “—Optional Redemption.”

## **Book-Entry-Only System**

*The description which follows of the procedures and record keeping with respect to beneficial ownership interests in the Series 2000 Notes, payment of principal of and interest on the Series 2000 Notes to DTC Participants, or to purchasers of the Series 2000 Notes, confirmation and transfer of beneficial ownership interests in the Series 2000 Notes, and other securities-related transactions by and between DTC, DTC Participants and Beneficial Owners (as hereinafter defined), is based solely on information furnished by DTC, and has not been independently verified by NorthStar.*

DTC will act as securities depository for the Series 2000 Notes. Upon the issuance of the Series 2000 Notes, one or more fully registered notes for each series, in the aggregate principal amount of the Series 2000 Notes, are to be registered in the name of Cede & Co., as nominee for DTC. So long as Cede & Co. is the Holder of the Series 2000 Notes, as nominee of DTC, references herein to the owners or Holders of the Series 2000 Notes shall mean DTC or its nominee, Cede & Co., and shall not mean the Beneficial Owners of the Series 2000 Notes. Noteholders may hold their certificates through DTC if they are DTC participants, or indirectly through organizations that are DTC participants.

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

Purchases of the Series 2000 Notes (in authorized denominations) under the book-entry system may be made only through brokers and dealers who are, or act through, DTC Participants. The DTC Participants purchasing the Series 2000 Notes will receive a credit balance in the records of DTC. The ownership interest of the actual purchaser of each Series 2000 Note (a “Beneficial Owner”) will be recorded in the records of the applicable DTC

Participant or Indirect Participant. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive from the applicable DTC Participant or Indirect Participant written confirmations providing details of the transaction, as well as periodic statements of their holdings. Transfers of beneficial ownership of the Series 2000 Notes will be accomplished by book entries made by the DTC Participants or Indirect Participants who act on behalf of the Beneficial Owners and, if necessary, in turn by DTC. No Series 2000 Notes will be registered in the names of the Beneficial Owners, and Beneficial Owners will not receive certificates representing their ownership interest in the Series 2000 Notes, except in the event participation in the book-entry system is discontinued as described below.

NorthStar and the Trustee will recognize DTC or its nominee as the Holder of the Series 2000 Notes for all purposes, including notice purposes. DTC has no knowledge of the actual Beneficial Owners of the Series 2000 Notes; DTC's records reflect only the identity of the DTC Participants to whose accounts such Series 2000 Notes are credited, which may or may not be the Beneficial Owners. The DTC Participants and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to DTC Participants, by DTC Participants to Indirect Participants and by DTC Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among DTC, DTC Participants, Indirect Participants and Beneficial Owners, subject to any statutory and regulatory requirements as may be in effect from time to time. Beneficial Owners may desire to make arrangements with a DTC Participant or an Indirect Participant so that all notices of redemption of Series 2000 Notes or other communications to DTC which affect such Beneficial Owners, and notification of all interest payments, will be forwarded in writing by the DTC Participant or Indirect Participant. Any failure of DTC to advise any DTC Participant, or of any DTC Participant or Indirect Participant to advise a Beneficial Owner, of any notice of redemption or its content or effect will not affect the validity of the redemption of the Series 2000 Notes prepaid or any other action premised on such notice.

Neither DTC nor Cede & Co. will consent or vote with respect to the Series 2000 Notes. Under its usual procedures, DTC mails an Omnibus Proxy to NorthStar as soon as possible after the record date it establishes. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those DTC Participants to whose accounts the Series 2000 Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of, premium, if any, and interest on the Series 2000 Notes will be made to DTC or its nominee, Cede & Co., as Holder of the Series 2000 Notes. DTC's current practice is to credit the accounts of the DTC Participants on payment dates in accordance with their respective holdings shown on the records of DTC, unless DTC has reason to believe that it will not receive payment on that date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not of DTC or NorthStar, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of NorthStar and the

Trustee, disbursement of such payments to DTC Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of DTC Participants and Indirect Participants.

By purchasing the Series 2000 Notes, whether in an Auction or otherwise, each prospective purchaser of the Series 2000 Notes or its Broker-Dealer must agree and will be deemed to have agreed: (i) to have its beneficial ownership of the Series 2000 Notes maintained at all times in Book-Entry Form for the account of its DTC Participant, which in turn will maintain records of such beneficial ownership, and to authorize such DTC Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; and (ii) so long as the beneficial ownership of the Series 2000 Notes is maintained in Book-Entry Form, to sell, transfer or otherwise dispose of the Series 2000 Notes only pursuant to a Bid or a Sell Order in an Auction, or otherwise through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of the Series 2000 Notes so transferred, its DTC Participant or Broker-Dealer advises the Auction Agent of such transfer.

For every transfer of the Series 2000 Notes, the Beneficial Owner may be charged a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

*So long as Cede & Co. or its registered assign is the registered holder of the Series 2000 Notes, NorthStar and the Trustee will be entitled to treat Cede & Co., or its registered assign, as the absolute owner thereof for all purposes of the Indenture and any applicable laws, notwithstanding any notice to the contrary received by NorthStar or the Trustee, and NorthStar and the Trustee will have no responsibility for transmitting payments to, communicating with, notifying, or otherwise dealing with any Beneficial Owners of the Series 2000 Notes.*

If (i) the Series 2000 Notes of any series are not eligible for the services of DTC, (ii) DTC determines to discontinue providing its services with respect to the Series 2000 Notes of any series or (iii) NorthStar determines that a system of book-entry transfers for Series 2000 Notes of any series, or the continuation thereof, through DTC is not in the best interest of the Beneficial Owners or NorthStar, NorthStar may either identify another qualified securities depository or direct or cause Series 2000 Note certificates for such series to be delivered to Beneficial Owners thereof or their nominees and, if certificates are delivered to the Beneficial Owners, the Beneficial Owners or their nominees, upon authentication of the Series 2000 Notes of such series in authorized denominations and registration thereof in the Beneficial Owners' or nominees' names, shall become the Holders of such Series 2000 Notes for all purposes. In any such event, the Trustee is to mail an appropriate notice to the securities depository for notification to DTC Participants and Beneficial Owners of the substitute securities depository or the issuance of Series 2000 Note certificates to Beneficial Owners or their nominees, as applicable.

### **Denomination and Payment**

The Series 2000 Notes are being issued in denominations of \$50,000 and any multiple thereof.

The principal of and premium, if any, on the Series 2000 Notes, together with interest payable on the Series 2000 Notes at the Maturity thereof if the date of such Maturity is not a regularly scheduled Interest Payment Date, shall be payable in lawful money of the United States of America upon, except as otherwise provided in the Indenture with respect to a Securities Depository, presentation and surrender of such Series 2000 Notes at the Principal Office of the Trustee, as paying agent with respect to the Series 2000 Notes, or a duly appointed successor paying agent. Interest on each series of the Series 2000 Notes shall be payable on each regularly scheduled Interest Payment Date with respect to such series, except as otherwise provided in the Indenture with respect to a Securities Depository, by check or draft drawn upon the paying agent and mailed to the person who is the Holder thereof as of 5:00 p.m. in the city in which the Principal Office of the Note Registrar is located on the Regular Record Date for such Interest Payment Date at the address of such Holder as it appears on the Note Register, or, in the case of any Series 2000 Note the Holder of which is the Holder of Series 2000 Notes in the aggregate Principal Amount of \$1,000,000 or more (or, if less than \$1,000,000 in Principal Amount of Series 2000 Notes is outstanding, the Holder of all outstanding Series 2000 Notes), at the direction of such Holder received by the Paying Agent by 5:00 p.m. on the last Business Day preceding the applicable Regular Record Date, by electronic transfer by the Paying Agent in immediately available funds to an account designated by such Holder. The Regular Record Date with respect to any regularly scheduled Interest Payment Date for a series of the Series 2000 Notes is the last Business Day preceding such Interest Payment Date, so long as Interest Payment Dates are specified to occur at the end of each Auction Period. Any interest not so timely paid or duly provided for (herein referred to as "Defaulted Interest") shall cease to be payable to the person who is the Holder thereof at the close of business on the Regular Record Date and shall be payable to the person who is the Holder thereof at the close of business on a special record date established by the Trustee (a "Special Record Date") for the payment of any such Defaulted Interest. Such Special Record Date shall be fixed by the Trustee whenever moneys become available for payment of the Defaulted Interest, and notice of the Special Record Date shall be given to the Holders of the Series 2000 Notes not less than 10 days prior thereto by first-class mail to each such Holder as shown on the Note Register on a date selected by the Trustee, stating the date of the Special Record Date and the date fixed for the payment of such Defaulted Interest. All payments of principal of and interest on the Series 2000 Notes shall be made in lawful money of the United States of America.

### **Mandatory Redemption**

The Series 2000 Notes of any series are subject to mandatory redemption on any regularly scheduled Interest Payment Date from revenues deposited to the Collection Fund which NorthStar directs to be deposited therein which are in excess of amounts necessary to pay or provide for the payment of Administrative Allowances and Note Fees, interest on the Notes, principal of the Notes at the stated maturity thereof or on mandatory sinking fund payment dates therefor, and certain other payments. See "Description of the Indenture—Funds and Accounts—Collection Fund." The Series 2000 Notes of each series selected for redemption (see "—Selection of Series 2000 Notes for Redemption") shall be redeemed on the first regularly scheduled Interest Payment Date for that series for which the Trustee can give the required notice. The redemption price will be 100% of the principal amount of such Notes to be redeemed, plus accrued interest thereon to the redemption date.

Revenues deposited to the Collection Fund in any monthly collection period will be applied to the redemption of Series 2000 Notes only to the extent that amounts are available for such purpose on the next Monthly Calculation Date.

The First Supplemental Indenture provides that any future series of Notes, or any portion thereof, may be designated for mandatory redemption or principal distributions from moneys on deposit in the Retirement Account before such principal repayments are applied to the redemption of the Series 2000 Notes.

### **Optional Redemption**

At NorthStar's option but subject to compliance with the conditions described under "— Senior Asset Requirement" below, Series 2000 Notes of any series may be redeemed on any regularly scheduled Interest Payment Date for such series, in whole or in part, and if in part as described under "—Selection of Series 2000 Notes for Redemption" below, at a redemption price of 100% of the principal amount of such Notes to be redeemed, plus accrued interest thereon to the redemption date.

### **Selection of Series 2000 Notes for Redemption**

If less than all Outstanding Series 2000 Notes are to be redeemed, the particular series from which Notes shall be redeemed will be determined by NorthStar, subject to the provisions of the Indenture described under "— Senior Asset Requirement" below.

If less than all of the Outstanding Series 2000 Notes of a given series are to be redeemed, the particular Series 2000 Notes to be redeemed shall be selected by the Trustee by lot in such manner as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of portions of the principal of Series 2000 Notes in Authorized Denominations.

### **Senior Asset Requirement**

No redemption of any Series 2000 Subordinate Note under any of the foregoing provisions is to be made unless, after giving effect to the redemption, while Senior Notes are outstanding, the Senior Asset Requirement will be met. Compliance with the Senior Asset Requirement will be determined as of the date of the selection of Series 2000 Notes to be redeemed, and any failure to meet the Senior Asset Requirement as of the redemption date will not affect such determination. In general, the "Senior Asset Requirement" requires that the Senior Asset Percentage is at least 105% and the Subordinate Asset Percentage is at least 100.5%. See "Glossary of Certain Defined Terms" and "Summary of the Indenture— Redemption or Purchase of Notes: Senior Asset Requirement."

### **Notice and Effect of Redemption**

Notice of redemption of the Series 2000 Notes shall be given by first class mail, mailed not less than 10 days prior to the date fixed for redemption to each Holder (which initially will be DTC or its nominee) of Series 2000 Notes to be prepaid at the address of such Holder appearing in the Note Register; but no defect in or failure to give such mailed notice of redemption shall affect the validity of proceedings for the redemption of any Series 2000 Note not affected by

such defect or failure. All notices of redemption shall state: (i) the redemption date; (ii) the redemption price; (iii) the name (including series designation), Stated Maturity and CUSIP numbers of the Series 2000 Notes to be redeemed, the principal amount of Series 2000 Notes of each series to be redeemed, and, if less than all Outstanding Notes of such series are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Series 2000 Notes to be redeemed; (iv) that, on the redemption date, the redemption price of and accrued interest on each such Series 2000 Note will become due and payable and interest thereon shall cease to accrue on and after such date; (v) the place or places where such Series 2000 Notes are to be surrendered for payment of the redemption price thereof and accrued interest thereon; and (vi) if it be the case, that such Series 2000 Notes are to be redeemed by the application of certain specified trust moneys and for certain specified reasons.

Notice of redemption having been given as provided above, the Series 2000 Notes designated in such notice shall become due and payable at the applicable redemption price, plus interest accrued thereon to the redemption date, and, upon surrender in accordance with such notice, shall be so paid, and thereafter such Series 2000 Notes shall cease to accrue interest.

### **AUCTION OF THE SERIES 2000 NOTES**

If not otherwise defined below, capitalized terms used below will have the meanings given such terms under “Glossary of Certain Defined Terms.” Unless otherwise noted or the context otherwise requires, the following description of Auctions and related procedures is applicable separately to each series of the Series 2000 Notes.

#### **Summary of Auction Procedures**

The following summarizes certain procedures that will be used in determining the interest rates on the Series 2000 Notes. Immediately following this summary is a more detailed description of these procedures. Prospective investors in the Series 2000 Notes should read carefully the following summary, along with the more detailed description.

The interest rate on each series of Series 2000 Notes will be determined periodically (generally, for periods ranging from seven days to one year, and initially 28 days for the Series 2000 Notes) by means of an auction. In this auction, investors and potential investors submit orders through an eligible Broker-Dealer as to the principal amount of Series 2000 Notes such investors wish to buy, hold or sell at various interest rates. The Broker-Dealers submit their clients’ orders to the Auction Agent, who processes all orders submitted by all eligible Broker-Dealers and determines the interest rate for the upcoming interest period. The Broker-Dealers are notified by the Auction Agent of the interest rate for the upcoming interest period and are provided with settlement instructions relating to purchases and sales of Series 2000 Notes.

In the auction procedure, the following orders may be submitted:

- “Bid Orders” — the minimum interest rate that a current investor is willing to accept in order to continue to hold some or all of its Series 2000 Notes for the upcoming interest period;



- “Sell Orders” — an order by a current investor to sell a specified principal amount of Series 2000 Notes, regardless of the upcoming interest rate;
- “Hold Order” — an order by a current investor to hold a specified principal amount of Series 2000 Notes, regardless of the upcoming interest rate; and
- “Potential Bid Orders” — the minimum interest rate that a potential investor (or a current investor wishing to purchase additional Series 2000 Notes) is willing to accept in order to buy a specified principal amount of Series 2000 Notes.

If an existing investor does not submit orders with respect to all its Series 2000 Notes of a particular series, the investor will be deemed to have submitted a Hold Order for that portion of such series for which no order was received.

In connection with each Auction, Series 2000 Notes will be purchased and sold between investors and potential investors at a price equal to their then-outstanding principal balance (i.e., par) plus any accrued interest. The following example helps illustrate how the above-described procedures are used in determining the interest rate on the Series 2000 Notes.

**Assumptions:**

Denominations (Units) = \$50,000  
 Principal Amount Outstanding = \$25 million (500 units)

**Summary of All Orders received for the Auction:**

<u>Bid Orders</u>	<u>Sell Orders</u>	<u>Potential Bid Orders</u>
10 Units at 5.90%	50 Units Sell	20 Units of 5.95%
30 Units at 6.02%	50 Units Sell	30 Units of 6.00%
60 Units at 6.05%	100 Units Sell	50 Units of 6.05%
100 Units at 6.10%	200 Units	50 Units of 6.10%
100 Units at 6.12%		50 Units of 6.11%
300 Units		50 Units of 6.14%
		100 Units of 6.15%
		350 Units

Total units under existing Bid Orders, Hold Orders and Sell Orders always equal issue size (in this case 500 units).

**Auction Agent Organizes Orders in Ascending Order:**

<u>Order Number</u>	<u>Number Of Units</u>	<u>Cumulative Total (Units)</u>	<u>Interest Rate</u>	<u>Order Number</u>	<u>Number of Units</u>	<u>Cumulative Total (Units)</u>	<u>Interest Rate</u>
1.	10(W)	10	5.90%	7.	100(W)	300	6.10%
2.	20(W)	30	5.95	8.	50(W)	350	6.10
3.	30(W)	60	6.00	9.	50(W)	400	6.11
4.	30(W)	90	6.02	10.	100(W)	500	6.12
5.	60(W)	150	6.05	11.	50(L)		6.14
6.	50(W)	200	6.05	12.	100(L)		6.15

(W) Winning Order      (L) Losing Order

Order #10 is the order that clears the market of all available units. All winning orders are awarded the winning rate (in this case, 6.12%) as the Auction Rate for the next Interest Period, when another Auction will be held. Multiple orders at the winning rate are allocated units on a pro rata basis. Notwithstanding the foregoing, in no event will the Applicable Interest Rate exceed the Maximum Rate.

The above example assumes that a successful Auction has occurred (i.e., all Sell Orders and all Bid Orders below the new interest rate were fulfilled). In certain circumstances, there may be insufficient Potential Bid Orders to purchase all the Series 2000 Notes offered for sale. In such circumstances, the Applicable Interest Rate for the upcoming Interest Period will equal the Maximum Rate. Also, if all the Series 2000 Notes are subject to Hold Orders (i.e., each Holder of Series 2000 Notes wishes to continue holding its Series 2000 Notes, regardless of the interest rate), the interest rate for the upcoming Interest Period will equal the All Hold Rate.

NorthStar will not be involved in directing the Auction Agent in conducting an Auction.

The foregoing is only a summary of the Auction Procedures. The remainder of this section is a more detailed description of these procedures.

**Auction Participants**

*Existing Holders and Potential Holders*

Participants in each Auction will include: (i) "Existing Holders," which shall include any Person (including a Broker-Dealer) who is a holder of Series 2000 Notes in the records of the Auction Agent (described below) at the close of business on the Business Day preceding each Auction Date and (ii) "Potential Holders," which shall include any Person (including a Broker-Dealer), including any Existing Holder, who may be interested in acquiring the Series 2000 Notes (or, in the case of an Existing Holder, an additional principal amount of the Series 2000 Notes). See "—Broker-Dealer" below.

By purchasing the Series 2000 Notes, whether in an Auction or otherwise, each purchaser of the Series 2000 Notes or its Broker-Dealer must agree and will be deemed to have agreed: (i) to participate in Auctions on the terms described in the First Supplemental Indenture; (ii) to have its beneficial ownership of the Series 2000 Notes maintained at all times in Book-Entry Form for the account of its Participant, which in turn will maintain records of such beneficial ownership, and (iii) to authorize such Participant to disclose to the Auction Agent such information with respect to such beneficial ownership as the Auction Agent may request; (iv) that a Sell Order placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount of the Series 2000 Notes specified in such Sell Order; (v) that a Bid placed by an Existing Holder will constitute an irrevocable offer to sell the principal amount, or a lesser principal amount, of the Series 2000 Notes specified in such Bid if the rate specified in such Bid is greater than, or in some cases equal to, the Applicable Interest Rate, determined as described herein; and (vi) that a Bid placed by a Potential Holder will constitute an irrevocable offer to purchase the amount, or a lesser principal amount, of the Series 2000 Notes specified in such Bid if the rate specified in such Bid is, respectively, less than or equal to the Applicable Interest Rate, determined as described herein. So long as the beneficial ownership of the Series 2000 Notes is maintained in Book-Entry Form, an Existing Holder may sell, transfer or otherwise dispose of the Series 2000 Notes only pursuant to a Bid (as defined below) or a Sell Order (as defined below) in an Auction, or otherwise sell, transfer or dispose of Series 2000 Notes through a Broker-Dealer, provided that in the case of all transfers other than those pursuant to an Auction, the Existing Holder of the Series 2000 Notes so transferred, or its Participant or Broker-Dealer, advises the Auction Agent of such transfer.

The principal amount of the Series 2000 Notes purchased or sold may be subject to proration procedures on the Auction Date. Each purchase or sale of the Series 2000 Notes on the Auction Date will be made for settlement on the first day of the Interest Period immediately following such Auction Date at a price equal to 100% of the principal amount thereof plus, unless such day is an Interest Payment Date, accrued interest thereon to but not including such day. The Auction Agent is entitled to rely upon the terms of any Order submitted to it by a Broker-Dealer.

#### *Auction Agent*

Bankers Trust Company is appointed in the First Supplemental Indenture as the initial Auction Agent to serve as agent for NorthStar in connection with Auctions with respect to Series 2000 Notes. The Trustee and NorthStar will enter into an Auction Agent Agreement relating to Series 2000 Notes with Bankers Trust Company as the initial Auction Agent. Any substitute Auction Agent shall be (i) a bank, national banking association or trust company duly organized under the laws of the United States of America or any state or territory thereof having its principal place of business in the Borough of Manhattan, New York, or such other location as approved by the Trustee in writing, and having a combined capital stock or surplus of at least \$50,000,000, or (ii) a member of the National Association of Securities Dealers, Inc., having a capitalization of at least \$50,000,000, and, in either case, authorized by law to perform all the duties imposed upon it under the First Supplemental Indenture and the Auction Agent Agreement. The Auction Agent may at any time resign and be discharged of the duties and obligations created by the First Supplemental Indenture by giving at least 90 days' notice to the Trustee, each Market Agent and NorthStar. The Auction Agent may be removed at any time by

the Trustee upon the written direction of an Authorized Officer of NorthStar or the Holders of 66-2/3% of the aggregate principal amount of the Series 2000A Notes of all series then Outstanding (or if there are no Series 2000A Notes Outstanding, the Holders of 66-2/3% of the aggregate principal amount of the Series 2000B Notes), and, if by such Holders, by an instrument signed by such Holders or their attorneys and filed with the Auction Agent, NorthStar and the Trustee upon at least 90 days' notice. Neither resignation nor removal of the Auction Agent as described in the preceding two sentences shall be effective unless and until a substitute Auction Agent has been appointed and has accepted such appointment. Notwithstanding the foregoing, the Auction Agent may terminate the Auction Agent Agreement if, within 25 days after notifying the Trustee, each Market Agent and NorthStar in writing that it has not received payment of any Auction Agent fee due it in accordance with the terms of the Auction Agent Agreement, the Auction Agent does not receive such payment.

If the Auction Agent shall resign or be removed or be dissolved, or if the property or affairs of the Auction Agent shall be taken under the control of any state or federal court or administrative body because of bankruptcy or insolvency, or for any other reason, the Trustee, at the direction of an Authorized Officer of NorthStar, shall use its best efforts to appoint a substitute Auction Agent.

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

NorthStar will pay the Auction Agent the Auction Agent fee on each Interest Payment Date and will reimburse the Auction Agent upon its request for all reasonable expenses, disbursements and advances incurred or made by the Auction Agent in accordance with any provision of the Auction Agent Agreement or the Broker-Dealer Agreements (including the reasonable compensation and the expenses and disbursements of its agents and counsel). Such amounts are payable from the Administration Fund. NorthStar will indemnify and hold harmless the Auction Agent for and against any loss, liability or expense incurred without negligence or bad faith on the Auction Agent's part, arising out of or in connection with the acceptance or administration of its agency under the Auction Agent Agreement and the Broker-Dealer Agreements, including the reasonable costs and expenses (including the reasonable fees and expenses of its counsel) of defending itself against any such claim or liability in connection with its exercise or performance of any of its respective duties thereunder.

#### *Broker-Dealer*

Existing Holders and Potential Holders may participate in Auctions only by submitting orders (in the manner described below) through a Broker-Dealer, including PaineWebber Incorporated, which initially will be the sole Broker-Dealer, or any other broker or dealer (each as defined in the Exchange Act), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth below which (i) is a Participant or an affiliate of a Participant, (ii) has been selected as such with respect to such series of Series 2000 Notes by

NorthStar and (iii) has entered into a Broker-Dealer Agreement with the Auction Agent that remains effective, in which the Broker-Dealer agrees to participate in Auctions as described in the Auction Procedures, as from time to time amended or supplemented.

The Broker-Dealers are entitled to a Broker-Dealer fee, which is payable by the Auction Agent from monies received from NorthStar, on each Interest Payment Date. Such Broker-Dealer fee is payable from the Administration Fund as provided in the First Supplemental Indenture.

Broker-Dealers may submit Orders in Auctions for their own accounts. Any Broker-Dealer submitting an Order for its own account in any Auction might have an advantage over other bidders in that it would have knowledge of other Orders placed through it in that Auction (but it would not have knowledge of Orders submitted by other Broker-Dealers, if any). The Broker-Dealer Agreements provide that a Broker-Dealer shall handle its customers' Orders in accordance with its duties under applicable securities laws and rules.

#### *Market Agent*

PaineWebber Incorporated will initially be the Market Agent. Although PaineWebber is acting as an Underwriter in connection with the initial offering of the Series 2000 Notes, it will act solely as agent of NorthStar when acting as the Market Agent in connection with the Series 2000 Notes, and will not assume any obligation or relationship of agency or trust for or with any of the Beneficial Owners when so acting.

### **Auction Procedures**

#### *General*

Pursuant to the First Supplemental Indenture, Auctions to establish the Auction Rate for the Series 2000 Notes will be held on each Auction Date, except as described under "Description of Series 2000 Notes—Interest Rate on the Series 2000 Notes," by application of the Auction Procedures described herein. Such procedures are to be applicable separately to each series of Series 2000 Notes. "Auction Date" means, initially, with respect to the Series 2000A-1 Notes, December 11, 2000, with respect to the Series 2000A-2 Notes, December 18, 2000 and with respect to the Series 2000B Notes, December 11, 2000, and, thereafter, with respect to each such series of Series 2000 Notes, the Business Day immediately preceding the first day of each related Auction Period, other than: (i) an Auction Period commencing after the ownership of such series is no longer maintained in Book-Entry Form; (ii) an Auction Period commencing after the occurrence and during the continuance of a Payment Default; or (iii) an Auction Period commencing less than the Applicable Number of Business Days after the cure or waiver of a Payment Default. Notwithstanding the foregoing, the Auction Date for one or more Auction Periods may be changed as described below under "—Changes in Auction Terms."

The Auction Agent will calculate the Maximum Auction Rate, the All Hold Rate and the Applicable LIBOR-Based Rate on each Auction Date. If the ownership of the Series 2000 Notes is no longer maintained in Book-Entry Form, the Trustee will calculate the Maximum Rate on the Business Day immediately preceding the first day of each Interest Period commencing after delivery of definitive Series 2000 Notes. If a Payment Default has occurred, the Trustee will

calculate the Non-Payment Rate on the Interest Rate Determination Date for (i) each Interest Period commencing after the occurrence and during the continuance of such Payment Default and (ii) any Interest Period commencing less than two Business Days after the cure of any Payment Default. The Auction Agent shall determine the Applicable LIBOR-Based Rate for each Interest Period other than the first Interest Period; provided that if the ownership of the Series 2000 Notes is no longer maintained in Book-Entry Form, or if a Payment Default has occurred, then the Trustee shall determine the Applicable LIBOR-Based Rate for each such Interest Period. The determination by the Trustee or the Auction Agent, as the case may be, of the foregoing shall (in the absence of manifest error) be final and binding upon all parties.

No Auction is to be held on any Auction Date during the continuance of a Payment Default.

*Submission by Existing Holders and Potential Holders to a Broker-Dealer*

Prior to the Submission Deadline (defined as 1:00 p.m., New York City time, on any Auction Date or such other time on any Auction Date by which Broker-Dealers are required to submit Orders to the Auction Agent as specified by the Auction Agent from time to time) on each Auction Date:

- each Existing Holder of Series 2000 Notes may submit to a Broker-Dealer by telephone or otherwise information as to: (i) the principal amount of Outstanding Series 2000 Notes, if any, held by such Existing Holder which such Existing Holder desires to continue to hold without regard to the Auction Rate for the next succeeding Auction Period (a "Hold Order"); (ii) the principal amount of Outstanding Series 2000 Notes, if any, which such Existing Holder offers to sell if the Auction Rate for the next succeeding Auction Period will be less than the rate per annum specified by such Existing Holder (a "Bid"); and/or (iii) the principal amount of Outstanding Series 2000 Notes, if any, held by such Existing Holder which such Existing Holder offers to sell without regard to the Auction Rate for the next succeeding Auction Period (a "Sell Order"); and
- one or more Broker-Dealers may contact Potential Holders to determine the principal amount of Series 2000 Notes which each such Potential Holder offers to purchase, if the Auction Rate for the next succeeding Auction Period will not be less than the rate per annum specified by such Potential Holder (also a "Bid").

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

Subject to the provisions of the First Supplemental Indenture described below under "—Validity of Orders," a Bid by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Series 2000 Notes specified in such Bid if the Auction Rate will be less than the rate specified in such Bid, (ii) such principal amount or a lesser principal amount of Outstanding Series 2000 Notes to be determined as described below under "—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders," if the Auction Rate will be equal to the rate specified in such Bid, or (iii) such principal amount or a lesser principal

amount of Outstanding Series 2000 Notes to be determined as described below under “—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders,” if the rate specified therein will be higher than the Maximum Rate and Sufficient Bids (as defined below) have not been made.

Subject to the provisions of the First Supplemental Indenture described below under “—Validity of Orders,” a Sell Order by an Existing Holder will constitute an irrevocable offer to sell: (i) the principal amount of Outstanding Series 2000 Notes specified in such Sell Order or (ii) such principal amount or a lesser principal amount of Outstanding Series 2000 Notes as described below under “—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders,” if Sufficient Bids have not been made.

Subject to the provisions of the First Supplemental Indenture described below under “—Validity of Orders,” a Bid by a Potential Holder will constitute an irrevocable offer to purchase: (i) the principal amount of Outstanding Series 2000 Notes specified in such Bid if the Auction Rate will be higher than the rate specified in such Bid or (ii) such principal amount or a lesser principal amount of Outstanding Series 2000 Notes as described below under “—Acceptance and Rejection of Submitted Bids and Submitted Sell Orders,” if the Auction Rate is equal to the rate specified in such Bid.

#### *Submission by Broker-Dealer to the Auction Agent*

Each Broker-Dealer will submit in writing to the Auction Agent prior to the Submission Deadline on each Auction Date all Orders obtained by such Broker-Dealer and will specify with respect to each such Order: (i) the name of the Bidder placing such Order; (ii) the aggregate principal amount of Series 2000 Notes that are the subject of such Order; (iii) to the extent that such Bidder is an Existing Holder: (a) the principal amount of Series 2000 Notes, if any, subject to any Hold Order placed by such Existing Holder; (b) the principal amount of Series 2000 Notes, if any, subject to any Bid placed by such Existing Holder and the rate specified in such Bid; and (c) the principal amount of Series 2000 Notes, if any, subject to any Sell Order placed by such Existing Holder; and (iv) to the extent such Bidder is a Potential Holder, the rate specified in such Potential Holder’s Bid.

If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent will round such rate up to the next highest .001%.

If an Order or Orders covering all Outstanding Series 2000 Notes held by any Existing Holder are not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent will deem a Hold Order to have been submitted on behalf of such Existing Holder covering the principal amount of Outstanding Series 2000 Notes owned by such Existing Holder and not subject to an Order submitted to the Auction Agent.

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

An Existing Holder may submit multiple Orders, of different types and specifying different rates, in an Auction with respect to Series 2000 Notes then held by such Existing

Holder. An Existing Holder that offers to purchase additional Series 2000 Notes is, for purposes of such offer, treated as a Potential Holder.

Neither NorthStar nor any affiliate of NorthStar may submit an Order (other than a Sell Order) in any Auction.

#### *Validity of Orders*

If any Existing Holder submits through a Broker-Dealer to the Auction Agent one or more Orders covering in the aggregate more than the principal amount of Outstanding Series 2000 Notes held by such Existing Holder, such Orders will be considered valid as follows and in the order of priority described below.

*Hold Orders.* All Hold Orders will be considered valid, but only up to the aggregate principal amount of Outstanding Series 2000 Notes held by such Existing Holder, and if the aggregate principal amount of Series 2000 Notes subject to such Hold Orders exceeds the aggregate principal amount of Series 2000 Notes held by such Existing Holder, the aggregate principal amount of Series 2000 Notes subject to each such Hold Order will be reduced pro rata so that the aggregate principal amount of Series 2000 Notes subject to such Hold Order equals the aggregate principal amount of Outstanding Series 2000 Notes held by such Existing Holder.

*Bids.* Any Bid will be considered valid up to an amount equal to the excess of the principal amount of Outstanding Series 2000 Notes held by such Existing Holder over the aggregate principal amount of Series 2000 Notes subject to any Hold Orders referred to above. Subject to the preceding sentence, if multiple Bids with the same rate are submitted on behalf of such Existing Holder and the aggregate principal amount of Outstanding Series 2000 Notes subject to such Bids is greater than such excess, such Bids will be considered valid up to and including an amount equal to such excess, and the stated amount of Outstanding Series 2000 Notes subject to each Bid with the same rate shall be reduced pro rata to cover the stated amount of Outstanding Series 2000 Notes equal to such excess. Subject to the two preceding sentences, if more than one Bid with different rates is submitted on behalf of such Existing Holder, such Bids will be considered valid first in the ascending order of their respective rates until the highest rate is reached at which such excess exists and then at such rate up to the amount of such excess. In any event, the aggregate principal amount of Outstanding Series 2000 Notes, if any, subject to Bids not valid under the provisions described above will be treated as the subject of a Bid by a Potential Holder at the rate therein specified.

*Sell Orders.* All Sell Orders will be considered valid up to an amount equal to the excess of the principal amount of Outstanding Series 2000 Notes held by such Existing Holder over the aggregate principal amount of Series 2000 Notes subject to valid Hold Orders and valid Bids as referred to above.

If more than one Bid for Series 2000 Notes is submitted on behalf of any Potential Holder, each Bid submitted will be a separate Bid with the rate and principal amount therein specified. Any Bid or Sell Order submitted by an Existing Holder covering an aggregate principal amount of Series 2000 Notes not equal to an Authorized Denomination will be rejected and will be deemed a Hold Order. Any Bid submitted by a Potential Holder covering an



aggregate principal amount of Series 2000 Notes not equal to an Authorized Denomination will be rejected. Any Bid submitted by an Existing Holder or a Potential Holder specifying a rate lower than the All Hold Rate shall be treated as a Bid specifying the All Hold Rate, and any such Bid shall be considered as valid and shall be selected in ascending order of the respective rates in the Submitted Bids. Any Bid specifying a rate higher than the applicable Maximum Interest Rate will (i) be treated as a Sell Order if submitted by an Existing Holder and (ii) not be accepted if submitted by a Potential Holder.

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

*Determination of Sufficient Bids, Auction Rate, and Winning Bid Rate*

Not earlier than the Submission Deadline on each Auction Date, the Auction Agent will assemble all valid Submitted Orders and will determine:

- (a) the excess of the total principal amount of Outstanding Series 2000 Notes over the sum of the aggregate principal amount of Outstanding Series 2000 Notes subject to Submitted Hold Orders (such excess being hereinafter referred to as the "Available Series 2000 Notes"); and
- (b) from such Submitted Orders whether: (i) the aggregate principal amount of Outstanding Series 2000 Notes subject to Submitted Bids by Potential Holders specifying one or more rates equal to or lower than the Maximum Interest Rate exceeds or is equal to the sum of (ii) the aggregate principal amount of Outstanding Series 2000 Notes subject to Submitted Bids by Existing Holders specifying one or more rates higher than the Maximum Interest Rate and (iii) the aggregate principal amount of Outstanding Series 2000 Notes subject to Submitted Sell Orders (in the event such excess or such equality exists other than because the sum of the principal amount of Series 2000 Notes in (ii) and (iii) above is zero because all of the Outstanding Series 2000 Notes are subject to Submitted Hold Orders, such Submitted Bids by Potential Holders described in (i) above will be hereinafter referred to collectively as "Sufficient Bids"); and
- (c) if Sufficient Bids exist, the "Winning Bid Rate," which will be the lowest rate specified in such Submitted Bids such that if:
  - (i) each such Submitted Bid from Existing Holders specifying such lowest rate and all other Submitted Bids from Existing Holders specifying lower rates were rejected (thus entitling such Existing Holders to continue to own the principal amount of Series 2000 Notes subject to such Submitted Bids); and
  - (ii) each such Submitted Bid from Potential Holders specifying such lowest rate and all other Submitted Bids from Potential Holders specifying lower rates were accepted;

the result would be that such Existing Holders described in subparagraph (c)(i) above would continue to hold an aggregate principal amount of Outstanding Series 2000 Notes which, when added to the aggregate principal amount of Outstanding Series 2000 Notes to be purchased by such Potential Holders described in subparagraph (c)(ii) above would equal not less than the Available Series 2000 Notes.

*Determination of Auction Rate and Applicable Interest Rate; Notice*

Promptly after the Auction Agent has made the determinations described above, the Auction Agent is to advise the Trustee and the Broker–Dealer of the Maximum Auction Rate, the Maximum Interest Rate, the All Hold Rate, One–Month LIBOR and the Applicable LIBOR–Based Rate and the components thereof on the Auction Date and, based on such determinations, the Auction Rate for the next succeeding Interest Period as follows:

- (a) if Sufficient Bids exist, that the Auction Rate for the next succeeding Interest Period will be equal to the Winning Bid Rate so determined;
- (b) if Sufficient Bids do not exist (other than because all of the Outstanding Series 2000 Notes are subject to Submitted Hold Orders), that the Auction Rate for the next succeeding Interest Period will be equal to the Maximum Rate; or
- (c) if all Outstanding Series 2000 Notes are subject to Submitted Hold Orders, that the Auction Rate for the next succeeding Interest Period will be equal to the All Hold Rate.

Promptly after the Auction Agent has determined the Auction Rate, the Auction Agent will determine and advise the Trustee of the Applicable Interest Rate, which rate will not exceed the Maximum Rate, which is the lesser of the Maximum Auction Rate or 18% (or such lesser rate as is permitted by applicable law).

If for any Interest Period the Auction Rate exceeds the Maximum Rate the Applicable Interest Rate will be equal to the Maximum Rate. If the Maximum Auction Rate is less than the Auction Rate, the Applicable Interest Rate will be the Maximum Auction Rate. If the Auction Agent has not received Sufficient Bids (other than because all of the Outstanding Series 2000 Notes are subject to Submitted Hold Orders), the Applicable Interest Rate will be the Maximum Rate. In any of the cases described above in this paragraph, Submitted Orders will be accepted or rejected and the Auction Agent will take such other action as described below under “—Insufficient Bids.”

*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders*

Existing Holders will continue to hold the principal amount of Series 2000 Notes that are subject to Submitted Hold Orders and based upon the determinations made as described above under “—Determination of Sufficient Bids, Auction Rate, and Winning Bid Rate.” Submitted Bids and Submitted Sell Orders will be accepted or rejected and the Auction Agent will take such other action as provided in the First Supplemental Indenture and described below under “—Sufficient Bids.”

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

- (a) Existing Holders' Submitted Bids specifying any rate that is higher than the Winning Bid Rate will be accepted, thus requiring each such Existing Holder to sell the aggregate principal amount of Series 2000 Notes subject to such Submitted Bids;
- (b) Existing Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be rejected, thus entitling each such Existing Holder to continue to hold the aggregate principal amount of Series 2000 Notes subject to such Submitted Bids;
- (c) Potential Holders' Submitted Bids specifying any rate that is lower than the Winning Bid Rate will be accepted thus requiring such Potential Owner to purchase the aggregate principal amount of Series 2000 Notes subject to such Submitted Bid.
- (d) Each Existing Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be rejected, thus entitling such Existing Holder to continue to hold the aggregate principal amount of Series 2000 Notes subject to such Submitted Bid, unless the aggregate principal amount of Series 2000 Notes subject to all such Submitted Bids will be greater than the principal amount of Series 2000 Notes (the "remaining principal amount") equal to the excess of the Available Series 2000 Notes over the aggregate principal amount of Series 2000 Notes subject to Submitted Bids described in subparagraphs (b) and (c) above, in which event such Submitted Bid of such Existing Holder will be rejected in part and such Existing Holder will be entitled to continue to hold the principal amount of Series 2000 Notes subject to such Submitted Bid, but only in an amount equal to the aggregate principal amount of Series 2000 Notes obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the principal amount of Outstanding Series 2000 Notes held by such Existing Holder subject to such Submitted Bid and the denominator of which will be the sum of the principal amount of Outstanding Series 2000 Notes subject to such Submitted Bids made by all such Existing Holders that specified a rate equal to the Winning Bid Rate; and
- (e) Each Potential Holder's Submitted Bid specifying a rate that is equal to the Winning Bid Rate will be accepted, but only in an amount equal to the principal amount of Series 2000 Notes obtained by multiplying the excess of the aggregate principal amount of Available Series 2000 Notes over the aggregate principal amount of Series 2000 Notes subject to Submitted Bids described in subparagraphs (b), (c) and (d) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Series 2000 Notes subject to such Submitted Bid and the denominator of which will be the sum of the principal

amount of Outstanding Series 2000 Notes subject to Submitted Bids made by all such Potential Holders that specified a rate equal to the Winning Bid Rate.

*Insufficient Bids.* If Sufficient Bids have not been made (other than because all of the Outstanding Series 2000 Notes are subject to Submitted Hold Orders), subject to the denomination requirements described below, Submitted Orders will be accepted or rejected as follows in the following order of priority and all other Submitted Bids will be rejected:

- (a) Existing Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be rejected, thus entitling such Existing Holders to continue to hold the aggregate principal amount of Series 2000 Notes subject to such Submitted Bids;
- (b) Potential Holders' Submitted Bids specifying any rate that is equal to or lower than the Maximum Rate will be accepted, thus requiring each Potential Holder to purchase the aggregate principal amount of Series 2000 Notes subject to such Submitted Bids; and
- (c) each Existing Holder's Submitted Bid specifying any rate that is higher than the Maximum Rate and the Submitted Sell Order of each Existing Holder will be accepted, thus entitling each Existing Holder that submitted any such Submitted Bid or Submitted Sell Order to sell the Series 2000 Notes subject to such Submitted Bid or Submitted Sell Order, but in both cases only in an amount equal to the aggregate principal amount of Series 2000 Notes obtained by multiplying the aggregate principal amount of Series 2000 Notes subject to Submitted Bids described in subparagraph (b) above by a fraction, the numerator of which will be the aggregate principal amount of Outstanding Series 2000 Notes held by such Existing Holder subject to such Submitted Bid or Submitted Sell Order and the denominator of which will be the aggregate principal amount of Outstanding Series 2000 Notes subject to all such Submitted Bids and Submitted Sell Orders.

*All Hold Orders.* If all Outstanding Series 2000 Notes are subject to Submitted Hold Orders, all Submitted Bids will be rejected.

*Authorized Denominations Requirement.* If, as a result of the procedures described above regarding Sufficient Bids and Insufficient Bids, any Existing Holder would be entitled or required to sell, or any Potential Holder would be entitled or required to purchase, a principal amount of Series 2000 Notes that is not equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it may determine, round up or down the principal amount of Series 2000 Notes to be purchased or sold by any Existing Holder or Potential Holder so that the principal amount of Series 2000 Notes purchased or sold by each Existing Holder or Potential Holder will be equal to an Authorized Denomination. If, as a result of the procedures described above regarding Sufficient Bids, any Potential Holder would be entitled or required to purchase less than a principal amount of Series 2000 Notes equal to an Authorized Denomination, the Auction Agent will, in such manner as in its sole discretion it may determine, allocate Series 2000 Notes for purchase among Potential Holders so that only Series

2000 Notes in an Authorized Denomination are purchased by any Potential Holder, even if such allocation results in one or more of such Potential Holders not purchasing any Series 2000 Notes.

Based on the results of each Auction, the Auction Agent is to determine the aggregate principal amount of Series 2000 Notes to be purchased and the aggregate principal amount of Series 2000 Notes to be sold by Potential Holders and Existing Holders on whose behalf each Broker-Dealer submitted Bids or Sell Orders and, with respect to each Broker-Dealer, to the extent that such aggregate principal amount of Series 2000 Notes to be sold differs from such aggregate principal amount of Series 2000 Notes to be purchased, determine to which other Broker-Dealer or Broker-Dealers acting for one or more purchasers such Broker-Dealer will deliver, or from which Broker-Dealers acting for one or more sellers such Broker-Dealer will receive, as the case may be, Series 2000 Notes.

### *Settlement Procedures*

The Auction Agent is required to advise each Broker-Dealer that submitted an Order in an Auction of the Applicable Interest Rate for the next Interest Period and, if such Order was a Bid or Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, by telephone not later than 3:00 p.m., New York City time, on the Auction Date, if the Applicable Interest Rate is the Auction Rate; provided that such notice is not required until 4:00 p.m., New York City time, on the Auction Date, if the Applicable Interest Rate is the Maximum Auction Rate. Each Broker-Dealer that submitted an Order on behalf of a Bidder is required to then advise such Bidder of the Applicable Interest Rate for the next Interest Period and, if such Order was a Bid or a Sell Order, whether such Bid or Sell Order was accepted or rejected, in whole or in part, confirm purchases and sales with each Bidder purchasing or selling Series 2000 Notes as a result of the Auction and advise each Bidder purchasing or selling Series 2000 Notes as a result of the Auction to give instructions to its Participant to pay the purchase price against delivery of such Series 2000 Notes or to deliver such Series 2000 Notes against payment therefor, as appropriate. Pursuant to the Auction Agent Agreement, the Auction Agent is to record each transfer of Series 2000 Notes on the Existing Holders Registry to be maintained by the Auction Agent.

In accordance with DTC's normal procedures, on the Business Day after the Auction Date, the transactions described above will be executed through DTC, so long as DTC is the Securities Depository, and the accounts of the respective Participants at DTC will be debited and credited and Series 2000 Notes delivered as necessary to effect the purchases and sales of Series 2000 Notes as determined in the Auction. Purchasers are required to make payment through their Participants in same-day funds to DTC against delivery through their Participants. DTC will make payment in accordance with its normal procedures, which now provide for payment against delivery by its Participants in immediately available funds.

If any Existing Holder selling Series 2000 Notes in an Auction fails to deliver such Series 2000 Notes, the Broker-Dealer of any person that was to have purchased Series 2000 Notes in such Auction may deliver to such person a principal amount of Series 2000 Notes that is less than the principal amount of Series 2000 Notes that otherwise was to be purchased by such person but in any event equal to an Authorized Denomination. In such event, the principal amount of Series 2000 Notes to be delivered will be determined by such Broker-Dealer.

Delivery of such lesser principal amount of Series 2000 Notes will constitute good delivery. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Participant to deliver the principal amount of Series 2000 Notes or to pay for the Series 2000 Notes purchased or sold pursuant to an Auction or otherwise. For a further description of the settlement procedures, see "Settlement Procedures for Series 2000 Notes."

### **Trustee Not Responsible for Auction Agent, Market Agent and Broker-Dealers**

The Trustee shall not be liable or responsible for the actions of or failure to act by the Auction Agent, the Market Agent or any Broker-Dealer under the First Supplemental Indenture, the Auction Agent Agreement or any Broker-Dealer Agreement. The Trustee may conclusively rely upon any information required to be furnished by the Auction Agent, the Market Agent or any Broker-Dealer without undertaking any independent review or investigation of the truth or accuracy of such information.

### **Changes in Auction Terms**

#### *Changes in Auction Period or Periods*

While any of the Series 2000 Notes are Outstanding, NorthStar may, from time to time, change the length of one or more Auction Periods (an "Auction Period Adjustment") in order to conform with then-current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by the Series 2000 Notes. NorthStar will not initiate such change in the length of the Auction Period unless it shall have received, not less than ten days nor more than 20 days prior to the Auction Period Adjustment, (i) the written consent of the Market Agent, which consent shall not be unreasonably withheld, and (ii) written confirmation from each of the Rating Agencies then rating the Series 2000 Notes that such Auction Period Adjustment will not adversely affect its ratings then applicable to any of the Series 2000 Notes. NorthStar will initiate an Auction Period Adjustment by giving written notice to the Trustee, the Auction Agent, the Market Agent and the Securities Depository in substantially the form of, or containing substantially the information contained in, the First Supplemental Indenture at least ten days prior to the Auction Date for such Auction Period.

Any such Auction Period Adjustment shall not result in an Auction Period of less than seven days nor more than one year.

An Auction Period Adjustment will take effect only if (A) the Trustee and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from NorthStar authorizing an Auction Period Adjustment specified in such certificate, the written consent of the Market Agent and the Rating Agency confirmations described above and, if applicable, the written statement of the Trustee, the Auction Agent and the Securities Depository described above, and (B) Sufficient Bids exist at the Auction on the Auction Date for such first Auction Period. If the condition referred to in (A) is not met, the Applicable Interest Rate applicable for the next Auction Period will be determined pursuant to the Auction Procedures and the Auction Period will be the Auction

Period determined without reference to the proposed change. If the condition referred to in (A) is met, but the condition referred to in (B) above is not met, the Applicable Interest Rate applicable for the next Auction Period will be the Maximum Rate, and the Auction Period will be the Auction Period determined without reference to the proposed change.

#### *Changes in the Auction Date*

The Market Agent, with the written consent of an authorized officer of NorthStar, may specify an earlier Auction Date (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" set forth above under "—Auction Procedures—General," with respect to one or more specified Auction Periods in order to conform with then-current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the Applicable Interest Rate on the Series 2000 Notes. The Market Agent shall deliver a written request for consent to such change in the Auction Date to NorthStar not less than three days nor more than 20 days prior to the effective date of such change. The Market Agent shall provide notice of its determination to specify an earlier Auction Date for one or more Auction Periods by means of a written notice delivered at least three days prior to the proposed changed Auction Date to the Trustee, the Auction Agent, NorthStar and the Securities Depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the First Supplemental Indenture.

#### *Notice of Changes in Auction Terms*

In connection with any change in Auction Terms described above, the Auction Agent is to provide such further notice to such parties as is specified in the Auction Agent Agreement.

### **SETTLEMENT PROCEDURES FOR SERIES 2000 NOTES**

If not otherwise defined below, capitalized terms used below will have the meanings given such terms under "Glossary of Certain Defined Terms" or "Auction of the Series 2000 Notes." These Settlement Procedures apply separately to each series of Series 2000 Notes.

- (a) On each Auction Date, not later than 3:00 p.m., New York City time, if the Applicable Interest Rate is the Auction Rate, the Auction Agent is to notify by telephone each Broker-Dealer that participated in the Auction held on such Auction Date and submitted an Order on behalf of an Existing Holder or Potential Holder of:
  - (i) the Auction Rate fixed for the next Interest Period;
  - (ii) whether there were Sufficient Bids in such Auction;
  - (iii) if such Broker-Dealer (a "Seller's Broker-Dealer") submitted a Bid or Sell Order on behalf of an Existing Holder, whether such Bid or Sell Order was accepted or rejected, in whole or in part, and the principal amount of Series 2000 Notes, if any, to be sold by such Existing Holder;

- (iv) if such Broker-Dealer (a "Buyer's Broker-Dealer") submitted a Bid on behalf of a Potential Holder, whether such Bid was accepted or rejected, in whole or in part, and the principal amount of Series 2000 Notes, if any, to be purchased by such Potential Holder;
  - (v) if the aggregate principal amount of Series 2000 Notes to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted Bids or Sell Orders exceeds the aggregate principal amount of Series 2000 Notes to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid, the name or names of one or more Buyer's Broker-Dealers (and the name of the Participant, if any, of each such Buyer's Broker-Dealer) acting for one or more purchasers of such excess principal amount of Series 2000 Notes and the principal amount of Series 2000 Notes to be purchased from one or more Existing Holders on whose behalf such Seller's Broker-Dealer acted by one or more Potential Holders on whose behalf each of such Buyer's Broker-Dealers acted;
  - (vi) if the aggregate principal amount of Series 2000 Notes to be purchased by all Potential Holders on whose behalf such Buyer's Broker-Dealer submitted a Bid exceeds the aggregate principal amount of Series 2000 Notes to be sold by all Existing Holders on whose behalf such Seller's Broker-Dealer submitted a Bid or a Sell Order, the name or names of one or more Seller's Broker-Dealers (and the name of the Participant, if any, of each such Seller's Broker-Dealer) acting for one or more sellers of such excess principal amount of Series 2000 Notes and the principal amount of Series 2000 Notes to be sold to one or more Potential Holders on whose behalf such Buyer's Broker-Dealer acted by one or more Existing Holders on whose behalf each of such Seller's Broker-Dealers acted;
  - (vii) unless previously provided, a list of all Applicable Interest Rates and related Interest Periods (or portions thereof) since the last Interest Payment Date; and
  - (viii) the Auction Date for the next succeeding Auction.
- (b) On each Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Holder or Potential Holder is to:
- (i) advise each Existing Holder and Potential Holder on whose behalf such Broker-Dealer submitted a Bid or Sell Order in the Auction on such Auction Date whether such Bid or Sell Order was accepted or rejected, in whole or in part;



- (ii) in the case of a Broker-Dealer that is a Buyer's Broker-Dealer, advise each Potential Holder on whose behalf such Buyer's Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Holder's Participant to pay to such Buyer's Broker-Dealer (or its Participant) through the Securities Depository the amount necessary to purchase the principal amount of the Series 2000 Notes to be purchased pursuant to such Bid against receipt of such Series 2000 Notes;
  - (iii) in the case of a Broker-Dealer that is a Seller's Broker-Dealer, instruct each Existing Holder on whose behalf such Seller's Broker-Dealer submitted a Sell Order that was accepted, in whole or in part, or a Bid that was accepted, in whole or in part, to instruct such Existing Holder's Participant to deliver to such Seller's Broker-Dealer (or its Participant) through the Securities Depository the principal amount of the Series 2000 Notes to be sold pursuant to such Bid or Sell Order against payment therefor;
  - (iv) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order and each Potential Holder on whose behalf such Broker-Dealer submitted a Bid of the Applicable Interest Rate for the next Interest Period;
  - (v) advise each Existing Holder on whose behalf such Broker-Dealer submitted an Order of the next Auction Date; and
  - (vi) advise each Potential Holder on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, of the next Auction Date.
- (c) On the basis of the information provided to it pursuant to paragraph (a) above, each Broker-Dealer that submitted a Bid or Sell Order in an Auction is required to allocate any funds received by it in connection with such Auction pursuant to paragraph (b)(ii) above, and any Series 2000 Notes received by it in connection with such Auction pursuant to paragraph (b)(iii) above, among the Potential Holders, if any, on whose behalf such Broker-Dealer submitted Bids, the Existing Holders, if any on whose behalf such Broker-Dealer submitted Bids or Sell Orders in such Auction, and any Broker-Dealers identified to it by the Auction Agent following such Auction pursuant to paragraph (a)(v) or (a)(vi) above.
- (d) On each Auction Date:
- (i) each Potential Holder and Existing Holder with an Order in the Auction on such Auction Date will instruct its Participant as provided in paragraph (b)(ii) or (b)(iii) above, as the case may be;
  - (ii) each Seller's Broker-Dealer that is not a Participant of the Securities Depository will instruct its Participant (A) to pay

through the Securities Depository of the Existing Owner delivering Series 2000 Notes to such Broker-Dealer following such Auction pursuant to (b)(iii) above the amount necessary, including accrued interest if any, to purchase Series 2000 Notes against receipt of such Series 2000 Notes; and (B) to deliver such Series 2000 Notes through the Securities Depository to a Buyer's Broker-Dealer (or its Participant) identified to such Seller's Broker-Dealer pursuant to paragraph (a)(v) above against payment therefor; and

- (iii) each Buyer's Broker-Dealer that is not a Participant of the Securities Depository will instruct its Participant to (A) pay through the Securities Depository to Seller's Broker-Dealer (or its Participant) identified to such Buyer's Broker-Dealer pursuant to paragraph (a)(vi) above the amount necessary to purchase the Series 2000 Notes to be purchased pursuant to paragraph (b)(ii) above against receipt of such Series 2000 Notes and (B) deliver such Series 2000 Notes through the Securities Depository to the Participant of the purchaser thereof against payment therefor.

(e) On the first Business Day of the Interest Period next following each Auction Date:

- (i) each Participant for a Bidder in the Auction on such Auction Date referred to in paragraph (d)(i) above will instruct the Securities Depository to execute the transactions described under paragraph (b)(ii) or (b)(iii) above for such Auction, and the Securities Depository will execute such transactions;
- (ii) each Seller's Broker-Dealer or its Participant will instruct the Securities Depository to execute the transactions described in paragraph (d)(ii) above for such Auction, and the Securities Depository will execute such transactions; and
- (iii) each Buyer's Broker-Dealer or its Participant will instruct the Securities Depository to execute the transactions described in paragraph (d)(iii) above for such Auction, and the Securities Depository will execute such transactions.

If an Existing Holder selling Series 2000 Notes in an Auction fails to deliver such Series 2000 Notes (by authorized book-entry), a Broker-Dealer may deliver to the Potential Holder on behalf of which it submitted a Bid that was accepted a principal amount of Series 2000 Notes that is less than the principal amount of Series 2000 Notes that otherwise was to be purchased by such Potential Holder (but only in an Authorized Denomination). In such event, the principal amount of Series 2000 Notes to be so delivered will be determined solely by such Broker-Dealer (but only in Authorized Denominations). Delivery of such lesser principal amount of Series 2000 Notes will constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of Series 2000 Notes which will represent any departure from the

results of an Auction, as determined by the Auction Agent, will be of no effect unless and until the Auction Agent will have been notified of such delivery or nondelivery in accordance with the provisions of the Auction Agent Agreement and the Broker-Dealer Agreements. Neither the Trustee nor the Auction Agent will have any responsibility or liability with respect to the failure of a Potential Holder, Existing Holder or their respective Broker-Dealer or Participant to take delivery of or deliver, as the case may be, the principal amount of the Series 2000 Notes purchased or sold pursuant to an Auction or otherwise.

## **DESCRIPTION OF THE INDENTURE**

### **General**

NorthStar, the Eligible Lender Trustee and the Trustee will enter into an Indenture of Trust, dated as of November 1, 2000 (the "Indenture"), which will authorize the issuance of series of Notes from time to time, as further provided in Supplemental Indentures. NorthStar and the Trustee will enter into a First Supplemental Indenture of Trust, dated as of November 1, 2000 (the "First Supplemental Indenture") which will authorize the particular terms of the Series 2000 Notes. See "Description of the Series 2000 Notes." The following is a summary of the material terms of the Indenture and certain terms of the First Supplemental Indenture. The summary does not purport to be complete and is qualified in its entirety by reference to the provisions of the Indenture and the First Supplemental Indenture.

The Indenture establishes the general provisions of Notes issued by NorthStar thereunder and sets forth various covenants and agreements of NorthStar relating thereto, default and remedy provisions, and responsibilities and duties of the Trustee and establishes the various Funds into which NorthStar's revenues related to the Financed Student Loans and the Notes are deposited and transferred for various purposes.

### **Funds and Accounts**

#### *Acquisition Fund*

The Indenture establishes an Acquisition Fund. With respect to each series of Notes, the Trustee will, upon delivery to the initial purchasers thereof and from the proceeds thereof, credit to the Acquisition Fund the amount, if any, specified in the Supplemental Indenture providing for the issuance of such series of Notes. The Trustee will also deposit in the Acquisition Fund: (1) any funds to be transferred thereto from the Collection Fund or the Surplus Fund, and (2) any other amounts specified in a Supplemental Indenture. In addition, the Trustee will also credit to the Acquisition Fund any Eligible Loans transferred thereto from the Surplus Fund (any such Eligible Loans so transferred being thereafter deemed to have been financed with moneys in the Acquisition Fund).

Balances in the Acquisition Fund will be used only for (a) the acquisition or origination of Eligible Loans, including all origination and guarantee fees, (b) the redemption or purchase, or distribution of principal with respect to, Notes as provided in a Supplemental Indenture providing for the issuance of such Notes, (c) the payment of debt service on the Notes and Other Obligations, (d) marketing costs pursuant to the Marketing Agreement, (e) the deposit of amounts into the Alternative Loan Loss Reserve Fund, or (f) such other purposes related to

NorthStar's loan programs as may be provided in the Supplemental Indenture authorizing a series of Notes. The Trustee will make payments to a Lender from the Acquisition Fund for the acquisition of Eligible Loans (such payments to be made at a purchase price not in excess of any limitation specified in a Supplemental Indenture). The Trustee will also make payments from the Acquisition Fund for the origination of Eligible Loans, including all origination and guarantee fees, if any, in connection therewith.

If, on any Monthly Calculation Date, the balance in the Acquisition Fund available for such purpose is less than the amount set forth in a certificate of an authorized officer of NorthStar as the amount expected to be needed to pay such guarantee fees due in the next month, the Trustee will transfer an amount equal to such deficiency to the Acquisition Fund from the following Funds in the following order of priority: the Collection Fund and the Surplus Fund.

Balances in the Acquisition Fund (other than any portion of such balances consisting of Student Loans) will be transferred to the Debt Service Fund on any Monthly Calculation Date to the extent required to pay the debt service due on the Notes and any Other Obligations, as described under "—Debt Service Fund" below. If any amounts have been transferred to the Debt Service Fund as described in this paragraph, the Trustee will, to the extent necessary to cure the deficiency in the Acquisition Fund as a result of such transfer, transfer to the Acquisition Fund amounts from the Collection Fund as described below under "—Collection Fund."

Except as otherwise set forth in a Supplemental Indenture, NorthStar may direct the Trustee to sell to any purchaser one or more Student Loans Financed with moneys in the Acquisition Fund (i) in exchange for one or more Eligible Loans (of approximately the same aggregate principal balance and accrued borrower interest as such Financed Student Loans) which (a) evidence the additional obligations of borrowers whose Student Loans have been previously Financed under the Indenture, or (b) are to be substituted for Financed Student Loans which are not Eligible Loans or (ii) at a price equal to or greater than the principal balance of such Student Loan as of the sale date; provided, that NorthStar shall give prior written notice to the Rating Agencies any time the Student Loans sold or exchanged are either sold for a price less than the principal balance thereof or exchanged for Student Loans with an aggregate principal balance less than that of the Financed Student Loans being sold.

Pending application of moneys in the Acquisition Fund for one or more authorized purposes, such moneys will be invested in investment securities, as described under "—Investments" below, and any income from said investments will be deposited in the Collection Fund.

#### *Collection Fund*

The Indenture establishes a Collection Fund. The Trustee will credit to the Collection Fund: (1) all amounts received as interest and principal payments with respect to Financed Student Loans, including all guarantee payments, federal interest subsidy payments and Special Allowance Payments with respect to Financed Student Loans (excluding, unless otherwise provided in a Supplemental Indenture, any federal interest subsidy payments and Special Allowance Payments that accrued prior to the date on which such Student Loans were financed), (2) unless otherwise provided in a Supplemental Indenture, proceeds of the sale of any Financed

Student Loans held in the Acquisition Fund, (3) any amounts transferred from the Acquisition Fund, the Administration Fund, the Reserve Fund and the Alternative Loan Loss Reserve Fund, (4) all amounts received as earnings on income from investment securities in the Acquisition Fund, the Reserve Fund, the Administration Fund, the Surplus Fund, the Alternative Loan Loss Reserve Fund, the Collection Fund and the Debt Service Fund, (5) all amounts received as payments from or on behalf of NorthStar with respect to the T.H.E. Bonus Deposit, (6) all Counterparty Swap Payments, and (7) any amounts received by the Trustee pursuant to the indemnification provisions of any Joint Sharing Agreement.

On each Monthly Calculation Date, the Trustee will transfer the moneys received during the preceding month in the Collection Fund as follows:

- first, to make any payments required under any Joint Sharing Agreement;
- second, to make any payments due and payable by NorthStar to the U.S. Department of Education related to the Financed Eligible Loans;
- third, to the Administration Fund, to increase the balance thereof to such amounts as an authorized officer of NorthStar shall direct for certain costs and expenses, subject to the limitations set forth in any Supplemental Indenture;
- fourth, to the Interest Account, to provide for the payment of interest on Senior Notes or Other Senior Obligations payable therefrom as described under “—Interest Account” below;
- fifth, to the Principal Account, to provide for the payment of principal of Senior Notes at stated maturity or on mandatory sinking fund payment dates or the reimbursement of Senior Credit Facility Providers as described under “—Principal Account” below;
- sixth, to the Interest Account, to provide for the payment of interest on Subordinate Notes or Other Subordinate Obligations (except termination payments due under Subordinate Swap Agreements as a result of Swap Counterparty default) payable therefrom as described under “—Interest Account” below;
- seventh, to the Principal Account, to provide for the payment of principal on Subordinate Notes at stated maturity or on mandatory sinking fund payment dates or the reimbursement of Subordinate Credit Facility Providers for the payment of principal of the Notes as described under “—Principal Account” below;
- eighth, to the Reserve Fund if necessary to increase the balance thereof to the Reserve Fund Requirement;
- ninth, to the Interest Account to provide for the payment of interest on Junior Subordinate Notes;

- tenth, to the Principal Account, to provide for the payment of principal of Junior Subordinate Notes at stated maturity or on mandatory sinking fund payment dates;
- eleventh, to NorthStar, the T.H.E. Bonus Deposit in an amount equal to 130 basis points per annum multiplied by the principal amount of the Financed Student Loans in repayment (and not delinquent by more than 60 days, through dates specified in the indenture, as extended or amended as provided by a Rating Agency Condition);
- twelfth, to the Acquisition Fund (but only during the Revolving Period) for the acquisition or origination of other Student Loans, such amount as directed by NorthStar;
- thirteenth, to the Retirement Account, at the direction of the NorthStar, for the redemption of, or distribution of principal with respect to, Notes (or the reimbursement of Credit Facility Providers for the payment of the prepayment price of the Notes);
- fourteenth, to the Interest Account for the payment of Carry-Over Amounts (and interest thereon) due with respect to the Senior Notes;
- fifteenth (but, while Senior Notes are outstanding, only if the Senior Asset Percentage would be at least 100% upon the application of such amounts), to the Interest Account for the payment of Carry-Over Amounts (and interest thereon) due with respect to the Subordinate Notes;
- sixteenth, (but, while Senior Notes are outstanding, only if the Senior Asset Percentage would be at least 100% upon the application of such amounts and while Subordinate Notes are outstanding, only if the Subordinate Asset Percentage would be at least 100% upon the application of such amounts), to the credit of the Interest Account, for the payment of Carry-Over Amounts with respect to the Junior Subordinate Notes;
- seventeenth, to the Interest Account for the payment of termination payments due under Senior Swap Agreements as a result of Swap Counterparty default;
- eighteenth, to the Interest Account for payment of termination payments due under Subordinate Swap Agreements as a result of Swap Counterparty default; and
- nineteenth, to the Surplus Fund.

Pending transfers from the Collection Fund, the moneys therein will be invested in investment securities as described under “—Investments” below, and any income from said investments will be retained therein.

### *Administration Fund*

With respect to each series of Notes, the Trustee will, upon delivery thereof and from the proceeds thereof, credit to the Administration Fund established under the Indenture the amount, if any, specified in the Supplemental Indenture providing for the issuance of such series of Notes. The Trustee will also credit to the Administration Fund, all amounts transferred thereto from the Collection Fund and the Surplus Fund. Amounts in the Administration Fund will be used to pay costs of issuance (to the extent provided by a Supplemental Indenture), Administrative Allowances and Note Fees. For so long as any Series 2000 Notes shall be Outstanding, NorthStar covenants and agrees that the Note Fees with respect to the Series 2000 Notes to be paid, or reimbursed to NorthStar, from the Administration Fund shall not, in any year, exceed the sum of (1) the annual fees of the Trustee, the Eligible Lender Trustee and the Market Agents in effect as of the Closing Date, (2) the annual fees due under the Marketing Agreement during the Revolving Period, which shall be the lesser of (a) \$100,000 and (b) the product of 10 basis points and the principal amount of the Series 2000 Notes Outstanding, (3) the Broker-Dealer Fees payable at the Broker-Dealer Fee Rate in effect as of the Closing Date, plus (4) the Auction Agent Fees payable at the Auction Agent Fee Rate in effect as of the Closing Date, unless NorthStar delivers to the Trustee written confirmation from each of the Rating Agencies then rating the Series 2000 Notes to the effect that payment or reimbursement of such additional Note Fees will not result in a reduction or withdrawal of the rating of the Series 2000 Notes.

On each Monthly Calculation Date, the Trustee will transfer to the Administration Fund moneys available under the Indenture for transfer thereto from the sources set forth in the following sentence and in such amounts and at such times as an authorized officer of NorthStar shall direct, for the payment of costs of issuance, Administrative Allowances or Note Fees due during the next month. Deposits to the Administration Fund will be made from the following sources in the following order of priority: the Collection Fund and the Surplus Fund.

Pending transfers from the Administration Fund, the moneys therein will be invested in investment securities, as described under "—Investments" below, and any income from such investments will be deposited in the Collection Fund.

### *Debt Service Fund*

The Indenture establishes a Debt Service Fund which comprises three Accounts: the Interest Account, the Principal Account and the Retirement Account. The Debt Service Fund will be used only for the payment when due of principal of and premium, if any, and interest on the Notes, the purchase price of Notes, Other Obligations and Carry-Over Amounts (including any accrued interest thereon). Any Supplemental Indenture providing for the issuance of any series of Notes, the payment of which is to be provided pursuant to or secured by a Credit Enhancement Facility, shall also provide for the creation of separate sub-accounts within the Interest Account, the Principal Account and the Retirement Account. Any payment received pursuant to such Credit Enhancement Facility shall be deposited into such sub-accounts, and moneys deposited therein shall be used only for the payment of principal of and premium, if any, and interest on Notes of such series, or for such other purposes as may be permitted by such Supplemental Indenture, upon the conditions set forth in such Supplemental Indenture.

*Interest Account.* The Trustee will deposit in the Interest Account: (1) proceeds of the issuance of Notes if directed by the Supplemental Indenture authorizing the Notes, (2) that portion of the proceeds from the sale of NorthStar's refunding bonds, notes or other evidences of indebtedness, if any, to be used to pay interest on the Notes, (3) all payments under any Credit Enhancement Facilities to be used to pay interest on the Notes and (4) all amounts required to be transferred thereto from the Funds described below.

With respect to each series of Notes on which interest is paid no less frequently than every 60 days, the Trustee shall deposit to the Interest Account on each Monthly Calculation Date an amount equal to the interest that will become payable on such Notes during the following calendar month. With respect to each series of Notes on which interest is paid less frequently than every 60 days, the Trustee shall make equal monthly deposits to the Interest Account on each Monthly Calculation Date preceding each Interest Payment Date, to aggregate the full amount of such interest. With respect to Variable Rate Notes for which any such amount cannot be determined on the Monthly Calculation Date, the Trustee will make such deposit based upon assumptions set forth in the Supplemental Indenture authorizing such Notes. The First Supplemental Indenture provides that such deposits shall be made on the assumption that the Series 2000 Notes will bear interest at the Maximum Auction Rate for any period for which the actual interest rates are not known.

With respect to each Swap Agreement or Credit Enhancement Facility under which NorthStar Swap Payments or Credit Enhancement Facility fees, as the case may be, are paid no less frequently than every 60 days, the Trustee shall deposit to the credit of the Interest Account on each Monthly Calculation Date an amount equal to the NorthStar Swap Payments or fees that will become payable during the following calendar month. With respect to each Swap Agreement or Credit Enhancement Facility under which NorthStar Swap Payments or Credit Enhancement Facility fees, as the case may be, are paid less frequently than every 60 days, the Trustee shall make equal monthly deposits to the Interest Account on each Monthly Calculation Date preceding each payment date, to aggregate the full amount of such NorthStar Swap Payments or Credit Enhancement Facility, as the case may be. With respect to any Swap Agreement for which any such amount cannot be determined on the Monthly Calculation Date, the Trustee will make such deposit based upon assumptions set forth in the Supplemental Indenture authorizing such Swap Agreement.

Each deposit required by the preceding paragraphs will be made by transfer from the following Funds and Accounts, in the following order of priority: the Collection Fund, the Surplus Fund (other than that portion of the balance thereof consisting of Financed Eligible Loans), the Reserve Fund, the Surplus Fund (including any portion of the balance thereof consisting of Financed Eligible Loans) and, as to Senior Notes and Other Senior Obligations only, the Acquisition Fund (other than that portion of the balance thereof consisting of Student Loans).

On each Monthly Calculation Date, if any Carry-Over Amount (including any accrued interest thereon) will be due and payable with respect to a series of Notes during the next month, as provided in the related Supplemental Indenture, the Trustee will transfer to the Interest Account (to the extent amounts are available therefor in the Collection Fund or the Surplus Fund, after taking into account all prior application of moneys in such Funds on such Monthly



Calculation Date) an amount equal to such Carry-Over Amount (including any accrued interest thereon) so due and payable.

The moneys in the Interest Account will be invested in investment securities as described under “—Investments” below, and any income from such investments will be deposited in the Collection Fund.

*Principal Account.* The Trustee will deposit to the Principal Account proceeds of the issuance of Notes in an amount, if any, representing premium of such Notes paid as a part of the purchase price thereof, and (1) that portion of the proceeds from the sale of NorthStar’s bonds, notes or other evidences of indebtedness, if any, to be used to pay principal of the Notes, (2) all payments under any Credit Enhancement Facilities to be used to pay principal of Notes and (3) all amounts required to be transferred thereto from the Funds described below.

To provide for the payment of principal due on the stated maturity of Notes or on a mandatory sinking fund payment date for Notes (or for the reimbursement to any Credit Facility Provider for the payment of such principal), the Trustee will make equal monthly deposits to the Principal Account on each of the twelve Monthly Calculation Dates preceding the date such payment is due, to aggregate the full amount of such payment. Such deposits shall be made by transfer from the following Funds in the following order of priority (after transfers therefrom to the Interest Account required on the date of any such transfer as described under “—Interest Account” above): the Collection Fund, the Surplus Fund (other than that portion of the balance thereof consisting of Financed Eligible Loans), the Reserve Fund, the Surplus Fund (including any portion of the balance thereof consisting of Financed Eligible Loans) and, as to Senior Notes and other Senior Obligations only, the Acquisition Fund (other than that portion of the balance thereof consisting of Student Loans).

Balances in the Principal Account may also be applied to the purchase of Notes at a purchase price not to exceed the principal amount thereof plus accrued interest, or to the redemption of or distribution of principal with respect to Notes at a prepayment price not to exceed the principal amount thereof plus accrued interest upon transfer to the Retirement Account, as determined by NorthStar at such time. Any such purchase, redemption or distribution of principal will be limited to those Notes whose stated maturity or mandatory sinking fund payment date is the next succeeding principal payment date.

The moneys in the Principal Account will be invested in investment securities as described under “—Investments” below, and any income from such investments will be deposited in the Collection Fund.

*Retirement Account.* The Trustee will deposit to the Retirement Account (1) any amounts transferred thereto from the Acquisition Fund, the Collection Fund, the Reserve Fund, the Surplus Fund, or the Principal Account to provide for the redemption of the distribution of principal with respect to the Notes, (2) that portion of the proceeds from the sale of NorthStar’s bonds, notes or other evidences of indebtedness, if any, to be used to pay the principal or redemption price of Notes on a date other than the stated maturity thereof or a mandatory sinking fund payment date therefor, (3) that portion of the proceeds of the sale or securitization of an Eligible Loan, if any, to be used to pay the principal or prepayment price of Notes on a date other

than the stated maturity date thereof or a mandatory sinking fund payment date thereof and (4) all payments under any Credit Enhancement Facilities to be used to pay the principal or redemption price of Notes payable from the Retirement Account. All Notes which are to be redeemed, or with respect to which principal distributions are to be made, other than at stated maturity or on a mandatory sinking fund payment date, will be redeemed or paid with moneys deposited to the Retirement Account. Moneys in the Retirement Account shall also be used for the reimbursement to any Credit Facility Provider for the payment of such amounts pursuant to a Credit Enhancement Facility.

Subject to the provisions of the Indenture described under “—Notes and Other Indenture Obligations—Call for Redemption or Purchase of Notes; Senior Asset Requirement,” amounts deposited to the credit of the Retirement Account to provide for the payment of the redemption price of Notes subject to mandatory redemption, or for mandatory principal distributions with respect to Notes, shall be applied to such payments with respect to Notes of all series subject to prepayment in such order of priority as may be established by the Supplemental Indentures pursuant to which such Notes have been issued (or in the absence of direction from such Supplemental Indentures, in the order in which Notes mature, and among Notes with the same stated maturity, in the order in which such Notes were issued).

Balances in the Retirement Account may also be applied to the purchase of Notes at a purchase price not to exceed the principal amount thereof plus accrued interest plus any then applicable redemption premium, as determined by NorthStar at such time.

The moneys in the Retirement Account will be invested in investment securities as described under “—Investments” below, and any income from such investment will be deposited in the Collection Fund.

#### *Reserve Fund*

Upon the delivery of any series of Notes, and from the proceeds thereof or, at the option of NorthStar, from any amounts to be transferred thereto from the Surplus Fund and from any other available moneys of NorthStar not otherwise credited to or payable into any Fund or Account under or otherwise subject to the pledge and security interest created by the Indenture, the Trustee will credit to the Reserve Fund the amount, if any, specified in the Supplemental Indenture providing for the issuance of that series of Notes, such that, upon issuance of such Notes, the balance in the Reserve Fund shall not be less than the Reserve Fund Requirement.

If on any Monthly Calculation Date the balance in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee will transfer thereto an amount equal to the deficiency from moneys available therefor in the following Funds and Accounts in the following order of priority (to the extent not required for credit to the Administration Fund, the Debt Service Fund or the Acquisition Fund): the Collection Fund and the Surplus Fund.

The balance in the Reserve Fund will be used and applied solely for the payment when due of principal of and interest on the Notes and any Other Indenture Obligations payable from the Debt Service Fund (see “Debt Service Fund” above), and will be so used and applied by transfer by the Trustee to the Debt Service Fund at any time and to the extent that the balance in

such Fund and the balances available for deposit to the credit thereof from the Collection Fund and the Surplus Fund are insufficient to meet the requirements specified in the Indenture for deposit to such Fund at such time. If on any Monthly Calculation Date the balance in the Reserve Fund exceeds the Reserve Fund Requirement, such excess will, upon order of an authorized officer of NorthStar, be transferred to the Collection Fund.

Pending transfers from the Reserve Fund, the moneys therein will be invested in investment securities as described under “—Investments” below and any income from such investments will be deposited in the Collection Fund.

#### *Alternative Loan Loss Reserve Fund*

With respect to each series of Notes, the Trustee shall, upon delivery to the initial purchasers thereof and from the proceeds thereof, credit to the Alternative Loan Loss Reserve Fund an amount set forth in the Supplemental Indenture authorizing the issuance of such series of Notes. With respect to the Series 2000 Notes, such amount will equal 4% of the original Principal Balance of the Alternative Loans financed with the proceeds of the Series 2000 Notes. This initial deposit will be supplemented, if additional Alternative Loans are made or acquired by NorthStar from moneys held under the Indenture, from amounts on deposit in the Acquisition Fund equal to 4% of the principal of such Alternative Loans or such lesser amount as permitted by a Rating Agency Condition.

Amounts held in the Alternative Loan Loss Reserve Fund shall be applied to the payment of the Principal Balance and accrued interest on any Alternative Loan for which the obligor with respect to such loan is more than 180 days delinquent with respect to payments due thereunder or which have been sent to a collection agency or for which such payment is directed by NorthStar in accordance with its program guidelines, provided that prior to any such payment, the Trustee shall have received from the NorthStar or Servicer a written or electronic notice stating that such payment default has occurred and specifying the amount to be disbursed hereunder. Any amounts recovered from such obligors following a disbursement from the Alternative Loan Loss Reserve Fund shall be credited to the Collection Fund.

Pending application of moneys in the Alternative Loan Loss Reserve Fund, the moneys therein will be invested in investment securities as described under “—Investments” below, and any income from such investments will be deposited in the Collection Fund.

#### *Surplus Fund*

On each Monthly Calculation Date, the Trustee will deposit to the Surplus Fund balances in the Collection Fund not required for deposit to any other Fund or Account and the proceeds of any Student Loans financed with moneys in the Surplus Fund.

At any time there is a deficiency in any of the other Funds or Accounts, Balances in the Surplus Fund shall be transferred to such Funds or Accounts to remedy such deficiency in the same order of priority as for the application of moneys in the Collection Fund (see “—Collection Fund”). Any such amounts to be transferred from the Surplus Fund shall be made first from any cash or investment securities included in the Surplus Fund and thereafter from the proceeds of any sale of Financed Student Loans included in the Surplus Fund.

Amounts in the Surplus Fund may be applied to any one or more of the following purposes at any time as determined by the NorthStar: (1) transfer to the Retirement Account for the redemption or purchase of, or distribution of principal with respect to, Notes; or (2) the acquisition or origination of Eligible Loans, or transfer to the Acquisition Fund for such purpose.

The principal balance of Student Loans Financed with moneys in the Surplus Fund shall be included in the balance of the Surplus Fund until such Financed Student Loans shall have been paid in full or sold; provided that, upon NorthStar's direction, any such Financed Student Loans constituting Eligible Loans shall, upon the financing thereof, be credited to, and included in the balance of, the Acquisition Fund and shall thereafter not be deemed to have been Financed with moneys in the Surplus Fund. The Trustee is required to use its best efforts to sell Student Loans included in the balance of the Surplus Fund at the best price available to the extent necessary to make any transfer or payment therefrom as described herein. In addition, NorthStar may, at any time, sell to any purchaser or purchase with the proceeds of NorthStar's bonds, notes or other evidences of indebtedness (A) one or more Eligible Loans Financed with moneys in the Surplus Fund at a price not less than one hundred percent (100%) of the principal balance thereof plus accrued interest thereon payable by the borrower, or (B) one or more Student Loans Financed with moneys in the Surplus Fund that are not Eligible Loans at a price not less than the lesser of one hundred percent (100%) of the principal balance thereof or the percentage of the principal balance thereof paid to finance such Student Loan plus, in either case, accrued interest thereon payable by the borrower. Any money received by the Trustee or NorthStar in connection with any such sale of Financed Student Loans shall be deposited to the credit of the Surplus Fund.

Any amounts in the Surplus Fund shall also be (A) released to NorthStar free and clear of the lien of the Indenture, or (B) applied to the purchase of Student Loans that are not Eligible Loans if, after taking into account any such application and excluding, for these purposes only, from the calculation of the value of the Aggregate Value, any Financed Student Loans which are not Eligible Loans, (i) while Senior Notes are outstanding, the Senior Asset Percentage will not be less than 105%, and while Subordinate Notes are outstanding, the Subordinate Asset Percentage will not be less than 101.5% and (ii) the Aggregate Value of assets held under the Indenture, less the principal amount of all Series 2000A Notes outstanding will exceed \$500,000 after release or payment.

Pending transfers from the Surplus Fund, the moneys therein will be invested in investment securities as described under "—Investments" below, and any income from such investments will be deposited in the Collection Fund.

#### *Note Purchase Fund*

Any Supplemental Indenture providing for the issuance of any series of Notes which must, upon the occurrence of certain circumstances, or may, at the option of the Holder, be tendered for purchase by or on behalf of NorthStar shall also provide for the creation of a separate Fund for such purpose. Any payment received from any source provided for in accordance with the provisions in the Supplemental Indenture (including proceeds of remarketing of such Notes, amounts provided pursuant to a Credit Enhancement Facility which provides liquidity for the payment of such purchase price, or amounts received from other

sources) shall be deposited into such Fund, and moneys deposited therein shall be used only for the payment of the purchase price of Notes of such series on a Tender Date, or for such other purposes as may be permitted by such Supplemental Indenture (including reimbursement of the Credit Facility Provider for the payment of such purchase price).

### **Notes and Other Indenture Obligations**

The Notes of each series will be issued pursuant to the terms of the Indenture, as supplemented by a Supplemental Indenture relating to that series. The following summary describes the material terms of the Notes. The summary does not purport to be complete and is qualified in its entirety by reference to the provisions of the Notes, the Indenture and the applicable Supplemental Indenture, which provisions are incorporated by reference herein. See “Description of Series 2000 Notes” for a more complete description of the terms of the Series 2000 Notes.

#### *General Terms of Notes*

Each series of Notes will be created by and issued pursuant to a Supplemental Indenture, which will designate the Notes of that series as Senior Notes or Subordinate Notes.

The stated maturity dates, mandatory sinking fund payment dates (if any), redemption or principal distribution provisions, interest rates and other terms of each series of Notes will be established in the related Supplemental Indenture.

***The Notes, including the principal thereof, premium, if any, and interest thereon and any Carry-Over Amounts (and accrued interest thereon) with respect thereto, and Other Indenture Obligations are limited obligations of NorthStar, payable solely from the revenues and assets of NorthStar pledged therefor under the Indenture.***

#### *Issuance of Additional Notes*

Additional Notes may be issued under the Indenture for the purposes of (a) providing funds for the acquisition or origination of Eligible Loans, (b) refunding at or before their stated maturity any or all Outstanding Notes, (c) paying Administrative Allowances, Note Fees, costs of issuance and capitalized interest on the Notes, (d) making deposits to the Reserve Fund and the Alternative Loan Loss Reserve Fund and (e) such other purposes relating to NorthStar’s loan programs as may be provided in a Supplemental Indenture.

At any time, one or more series of Additional Notes may be issued upon compliance with certain conditions specified in the Indenture (including the requirement that each Rating Agency shall have confirmed that no outstanding ratings on any of the Outstanding Notes will be reduced or withdrawn as a result of such issuance) and any additional conditions specified in a Supplemental Indenture.

#### *Comparative Security of Noteholders and Other Beneficiaries*

The Senior Notes will be equally and ratably secured under the Indenture with any Other Senior Obligations. The Senior Obligations will have payment and certain other priorities over

the Subordinate Notes and the Other Subordinate Obligations. The Subordinate Notes will be equally and ratably secured under the Indenture with any Other Subordinate Obligations. See “Source of Payment and Security for the Notes—Priorities.”

NorthStar may at any time issue a series of Notes, as either Senior Notes or Subordinate Notes. In connection with any such Senior Notes or Subordinate Notes, NorthStar may enter into a Swap Agreement or Credit Enhancement Facility as it deems in its best interest, and the Swap Counterparty or the Credit Enhancement Provider may become a Senior Beneficiary or a Subordinate Beneficiary, as herein described. See “Source of Payment and Security for the Notes—Additional Indenture Obligations.”

*Call for Redemption or Purchase of Notes; Senior Asset Requirement*

No redemption (other than mandatory sinking fund redemption) of, or principal distribution with respect to, Subordinate Notes will be permitted under the Indenture unless, prior to the Trustee giving notice of such redemption or allocating revenues to such distribution, NorthStar furnishes the Trustee a certificate to the effect that, after giving effect to such redemption or distribution, the Senior Asset Requirement will be met.

In general, compliance with the foregoing condition is determined as of the date of selection of Notes which are to be redeemed or with respect to which principal is to be distributed, and any failure to satisfy such conditions as of the payment date will not affect such determination; provided that, if Notes have been defeased and are to be prepaid, compliance with such conditions will be determined on the date of defeasance instead of as of the date of selection. See “—Discharge of Notes and Indenture” below.

Any election to redeem or distribute principal with respect to Notes may also be conditioned upon such additional requirements as may be set forth in the Supplemental Indenture authorizing the issuance of such Notes.

*Credit Enhancement Facilities and Swap Agreements.*

NorthStar may from time to time, pursuant to a Supplemental Indenture, enter into any Credit Enhancement Facilities or Swap Agreements with respect to any Notes of any series. No Supplemental Indenture will authorize NorthStar to enter into a Swap Agreement or obtain a Credit Enhancement Facility unless the Trustee shall have received written confirmation from each Rating Agency that such action will not cause the reduction or withdrawal of any rating or ratings then applicable to any Outstanding Notes.

Any Supplemental Indenture authorizing the execution by NorthStar of a Swap Agreement or Credit Enhancement Facility may include provisions with respect to the application and use of all amounts to be paid thereunder. No amounts paid under any such Credit Enhancement Facility will be part of the Trust Estate except to the extent, if any, specifically provided in such Supplemental Indenture and no Beneficiary will have any rights with respect to any such amounts so paid except as may be specifically provided in such Supplemental Indenture.

## **Pledge; Encumbrances**

The Notes and all Other Indenture Obligations are limited obligations of NorthStar specifically secured by the pledge of the proceeds of the sale of Notes (until expended for the purpose for which the Notes were issued), the Financed Student Loans and the revenues, moneys and securities in the various Funds, in the manner and subject to the prior applications provided in the Indenture. Financed Student Loans purchased with the proceeds of NorthStar's bonds, notes or other evidences of indebtedness or sold to or exchanged with another party in accordance with the provisions of the Indenture, will, contemporaneously with receipt by the Trustee of the purchase price thereof, no longer be pledged to nor serve as security for the payment of the principal of, premium, if any, or interest on, or any Carry-Over Amounts (or accrued interest thereon) with respect to the Notes or any Other Indenture Obligations.

NorthStar agrees that it will not create, or permit the creation of, any pledge, lien, charge or encumbrance upon the Financed Student Loans or the revenues and other assets pledged under the Indenture, except only as to a lien subordinate to the lien of the Indenture created by any other indenture authorizing the issuance of bonds, notes or other evidences of indebtedness of NorthStar, the proceeds of which have been or will be used to refund or otherwise retire all or a portion of the Outstanding Notes or as otherwise provided in or permitted by the Indenture. NorthStar agrees that it will not issue any bonds or other evidences of indebtedness, other than the Notes as permitted by the Indenture and other than Swap Agreements and Credit Enhancement Facilities relating to Notes as permitted by the Indenture, secured by a pledge of the revenues and other assets pledged under the Indenture, creating a lien or charge equal or superior to the lien of the Indenture. Nothing in the Indenture is intended to prevent NorthStar from issuing obligations secured by revenues and assets of NorthStar other than the revenues and other assets pledged in the Indenture.

## **Covenants**

Certain covenants with the Holders of the Notes and Other Beneficiaries contained in the Indenture are summarized as follows:

*Enforcement and Amendment of Guarantee Agreements.* So long as any Notes are Outstanding and Financed Eligible Loans are Guaranteed by a Guarantor, NorthStar agrees that it will (1) from and after the date on which the Eligible Lender Trustee on its behalf shall have entered into, or succeeded to the rights of the Lender under, any FFELP Guarantee Agreement, covering Financed Eligible Loans cause the Eligible Lender Trustee to maintain the same and diligently enforce the Eligible Lender Trustee's rights thereunder, (2) cause the Eligible Lender Trustee to enter into such other similar or supplemental agreements as shall be required to maintain benefits for all Financed Eligible Loans covered thereby, (3) from and after the date on which NorthStar shall have entered into, or succeeded to the rights of the Lender under, any Alternative Loan Guarantee Agreement covering Financed Eligible Loans, maintain such Alternative Loan Guarantee Agreement and diligently enforce its rights thereunder, and (4) not voluntarily consent to or permit any rescission of or consent to any amendment to or otherwise take any action under or in connection with the same which in any manner will materially adversely affect the rights of the Noteholders or Other Beneficiaries under the Indenture. Notwithstanding the foregoing, NorthStar may amend any Guarantee Agreement or Alternative

Loan Guarantee Agreement or may cause the Eligible Lender Trustee to amend any Guarantee Agreement in any respect if each Rating Agency confirms that such amendment will not cause the withdrawal or reduction of any rating or ratings then applicable to any Outstanding Notes.

*Acquisition, Collection and Assignment of Student Loans.* NorthStar agrees that it will, except as otherwise provided with regard to the Surplus Fund (see “—Funds and Accounts—Surplus Fund” above), purchase or originate only Eligible Loans with moneys in any of the Funds and (subject to any adjustments referred to in the following paragraph) will diligently cause to be collected all principal and interest payments on all the Financed Student Loans and other sums to which NorthStar is entitled with respect to such Financed Student Loan, and all Special Allowance Payments and all defaulted payments guaranteed by any Guarantor which relate to such Financed Student Loans.

*Enforcement of Financed Student Loans.* NorthStar agrees that it will cause to be diligently enforced, all terms, covenants and conditions of all Financed Student Loans and agreements in connection therewith, including the prompt payment of all principal and interest payments (as such payments may be adjusted to take into account (1) any discount NorthStar may cause to be made available to borrowers who make payments on Financed Student Loans through automatic withdrawals, and (2) any reduction in the interest payable on Financed Student Loans provided for in any borrower incentive or other special program under which such loans were originated) and all other amounts due NorthStar thereunder. NorthStar further agrees that it will not permit the release of the obligations of any borrower under any Financed Student Loan and will at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of NorthStar, the Eligible Lender Trustee, the Trustee and the Beneficiaries under or with respect to each Financed Student Loan and agreement in connection therewith. NorthStar will not consent or agree to or permit any amendment or modification of any Financed Student Loan or agreement in connection therewith which will in any manner materially adversely affect the rights or security of the Beneficiaries. Nothing in the provisions of the Indenture described in this paragraph, however, shall be construed to prevent NorthStar from (a) settling a default or curing a delinquency on any Financed Student Loan on such terms as shall be permitted by law, (b) amending the terms of a Financed Student Loan to provide for a different rate of interest thereon to the extent permitted by law or (c) if Trustee shall have received written confirmation from each Rating Agency that such action will not cause the reduction or withdrawal of any rating or ratings then applicable to any Outstanding Notes, otherwise amending the terms of any Financed Student Loan or agreement in connection therewith.

*Administration and Collection of Financed Student Loans.* NorthStar agrees to service and collect, or enter into one or more Servicing Agreements pursuant to which Servicers agree to service or collect, all FFELP Loans in accordance with all requirements of the Higher Education Act, the Secretary of Education, the Indenture and each Guarantee Agreement and all Alternative Loans with a standard of servicing as high as that for the servicing and collection of FFELP Loans. NorthStar agrees to cause to be diligently enforced all terms, covenants and conditions of all Servicing Agreements, including the prompt payment of all principal and interest payments and all other amounts due NorthStar or the Trustee thereunder, including all Special Allowance Payments and all defaulted payments guaranteed by any Guarantor which relate to any Financed Student Loans. NorthStar shall not permit the release of the obligations of any Servicer under



any Servicing Agreement and shall at all times, to the extent permitted by law, cause to be defended, enforced, preserved and protected the rights and privileges of NorthStar, the Trustee and the Beneficiaries under or with respect to each Servicing Agreement. NorthStar agrees not to consent or agree to or permit any amendment or modification of any Servicing Agreement which will in any manner materially adversely affect the rights or security of the Beneficiaries. Notwithstanding the foregoing, NorthStar or the Eligible Lender Trustee may amend any Servicing Agreement in any respect if each Rating Agency confirms that such amendment will not cause the withdrawal or reduction of any rating or ratings then applicable to any Outstanding Notes

*Limitation on Note Fees.* NorthStar covenants and agrees in the First Supplemental Indenture that the Note Fees will not exceed certain levels unless it obtains the written confirmation of the Rating Agencies that the payment of increased Note Fees will not result in the withdrawal or reduction of the ratings of any Series 2000 Notes.

*Tax-Exempt Status.* NorthStar agrees that it will not take any action which would result in the loss of, and will take all reasonable actions necessary to maintain, its status as an organization described in Section 501(c)(3) of the Internal Revenue Code and exempt from federal income taxation under Section 501(a) of the Internal Revenue Code (or any successor provisions).

*Continuing Existence; Merger and Consolidation.* NorthStar agrees to maintain its existence as a corporation and not to dispose of all or substantially all of its assets (by sale, lease or otherwise), except as otherwise specifically authorized in the Indenture, or consolidate with or merge into another entity or permit any other entity to consolidate with or merge into it unless either NorthStar is the surviving corporation or each of the following conditions is satisfied:

- (a) the surviving, resulting or transferee entity, as the case may be, shall be a corporation, limited liability company or other legal entity organized under the laws of the United States or one of the states thereof;
- (b) at least thirty days before any merger, consolidation or transfer of assets becomes effective, NorthStar shall give the Trustee written notice of the proposed transaction;
- (c) immediately after giving effect to any merger, consolidation or transfer of assets, no Event of Default shall have occurred and be continuing;
- (d) each Rating Agency shall have confirmed that such merger, consolidation or transfer of assets will not cause the withdrawal or reduction of any rating or ratings then applicable to any Outstanding Notes; and
- (e) prior to or concurrently with any merger, consolidation or transfer of assets, (a) any action as is necessary to maintain the lien and security interest created in favor of the Trustee by this Indenture shall have been taken, (b) the surviving, resulting or transferee entity, as the case may be, shall deliver to the Trustee an instrument assuming all of the obligations of NorthStar under the Indenture and related agreements, together with any

necessary consents and (c) NorthStar shall have delivered to the Trustee and each Rating Agency a certificate and an opinion of counsel (which shall describe the actions taken as required by clause (a) of this paragraph or that no such action need be taken) each stating that all conditions precedent to such merger, consolidation or transfer of assets have been complied with.

## **Investments**

Moneys from time to time on deposit in the Funds and Accounts may be invested in one or more of the following investment securities:

- Government Obligations;
- interest-bearing time or demand deposits, certificates of deposit or other similar banking arrangements with any bank, trust company, national banking association or other depository institution (including the Trustee or any of its affiliates), provided that, at the time of deposit or purchase, if the investment is for a period exceeding one year, such depository institution shall have long-term unsecured debt rated by each Rating Agency then rating such long-term unsecured debt not lower than in its highest applicable specific rating category or if the investment is for a period of less than one year, such depository institution shall have short-term unsecured debt rated by each Rating Agency then rating such short-term unsecured debt not lower than its highest applicable specific rating category;
- obligations issued or guaranteed as to principal and interest by any of the following: (a) the Government National Mortgage Association, (b) the Federal National Mortgage Association, or (c) the Federal Farm Credit Banks, the Federal Intermediate Credit Banks, the Export-Import Bank of the United States, the Federal Land Banks, the Student Loan Marketing Association, the Federal Financing Bank, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation or the Farmers Home Administration, or any agency or instrumentality of the United States of America which will be established for the purpose of acquiring the obligations of any of the foregoing or otherwise providing financing therefor, provided that any such obligation described in this clause (c) will be rated by each Rating Agency then rating such obligation, not lower than in its highest applicable specific rating category;
- repurchase agreements or reverse repurchase agreements with banks (which may include the Trustee or any of its affiliates) which are members of the Federal Deposit Insurance Corporation or with government bond dealers insured by the Securities Investor Protection Corporation, which such agreements are secured by Government Obligations to a level sufficient to obtain a rating by each Rating Agency in its highest applicable specific rating category, or with brokers or dealers whose unsecured long-term debt is rated by each Rating Agency then rating such unsecured long-term debt in its highest applicable specific rating category;

- any money market fund rated by each Rating Agency not lower than its highest applicable specific rating category;
- any debt instrument rated by Moody's not lower than in its highest applicable specific rating category, and, if rated by Fitch, rated not lower than its highest applicable specific rating category;
- any investment agreement which constitutes a general obligation, or the obligations under which are unconditionally guaranteed by an entity whose debt, unsecured securities, deposits or claims paying ability is rated by each Rating Agency then rating such debt, unsecured securities, deposits or claims paying ability not lower than in its highest applicable specific rating category; provided, however, that such investment agreement shall provide that if the provider's rating is reduced, such investment agreement may be terminated without penalty or otherwise must be collateralized to the satisfaction of each Rating Agency; and
- any other investment if the Rating Agency Condition is met with respect to such investment.

## **Events of Default**

If any of the following events occur, it is an "Event of Default" under the Indenture:

- (a) default in the due and punctual payment of any interest on any Senior Note; or
- (b) default in the due and punctual payment of the principal of, or premium, if any, on any Senior Note, whether at the stated maturity thereof, at the date fixed for redemption thereof (including, but not limited to, mandatory sinking fund payment dates) or otherwise upon the maturity thereof; or
- (c) default by NorthStar in its obligation to purchase any Senior Note on a Tender Date therefor; or
- (d) default in the due and punctual payment of any amount owed by NorthStar to any Other Senior Beneficiary under a Senior Swap Agreement or Senior Credit Enhancement Facility; or
- (e) if no Senior Obligations are Outstanding, default in the due and punctual payment of any interest on any Subordinate Note; or
- (f) if no Senior Obligations are Outstanding, default in the due and punctual payment of the principal of, or premium, if any, on, any Subordinate Note, whether at the stated maturity thereof, at the date fixed for redemption thereof (including but not limited to, mandatory sinking fund payment dates) or otherwise upon the maturity thereof; or

- (g) if no Senior Obligations are Outstanding, default by NorthStar in its obligation to purchase any Subordinate Note on a Tender Date therefor; or
- (h) if no Senior Obligations are Outstanding, default in the due and punctual payment of any amount owed by NorthStar to any Other Subordinate Beneficiary under a Subordinate Swap Agreement or a Subordinate Credit Enhancement Facility; or
- (i) if no Senior Obligations and no Subordinate Obligations are Outstanding, default in the due and punctual payment of any interest on any Junior Subordinate Note; or
- (j) if no Senior Obligations and no Subordinate Obligations are Outstanding, default in the due and punctual payment of the principal of, or premium, if any, on, any Junior Subordinate Note, whether at the stated maturity thereof, at the date fixed for prepayment thereof (including, but not limited to, mandatory sinking fund payment dates) or otherwise upon the maturity thereof; or
- (k) if no Senior Obligations and no Subordinate Obligations are Outstanding, default by the NorthStar in its obligation to purchase any Junior Subordinate Note on a Tender Date therefor; or
- (l) default in the performance of any of NorthStar's obligations with respect to the transmittal of moneys to be credited to the Collection Fund, the Acquisition Fund or the Debt Service Fund under the provisions of the Indenture and such default shall have continued for a period of 30 days; or
- (m) default in the performance or observance of any other of the covenants, agreements or conditions on the part of NorthStar contained in the Indenture or in the Notes, and such default shall have continued for a period of 30 days after written notice thereof, specifying such default, shall have been given to NorthStar by the Trustee (which may give such notice in its discretion and will give such notice at the written request of the Acting Beneficiaries Upon Default); provided that, if the default is such that it can be corrected, but not within such 30 days, it will not constitute an Event of Default if corrective action is instituted by NorthStar within such 30 days and is diligently pursued until the default is corrected; or
- (n) certain events of bankruptcy or insolvency of NorthStar.

## **Remedies**

Whenever any Event of Default shall have occurred and be continuing, the Trustee may (and, upon the written request of the Acting Beneficiaries Upon Default, the Trustee shall), by notice in writing delivered to NorthStar, declare the principal of and interest accrued on all Notes then Outstanding due and payable and such principal and interest shall become immediately due

and payable; provided, however, that a declaration of acceleration upon default described in (m) above shall require the consent of the Holders of a majority in aggregate principal amount of both Senior Obligations and Subordinate Obligations.

At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee, the Acting Beneficiaries Upon Default, by written notice to NorthStar and the Trustee, may rescind and annul such declaration and its consequences if:

(1) There has been paid to or deposited with the Trustee by or for the account of NorthStar, or provision satisfactory to the Trustee has been made for the payment of, a sum sufficient to pay:

(A) if Senior Obligations are Outstanding: (i) all overdue installments of interest on all Senior Notes; (ii) the principal of (and premium, if any, on) any Senior Notes which have become due other than by such declaration of acceleration, together with interest thereon at the rate or rates borne by such Senior Notes; (iii) to the extent that payment of such interest is lawful, interest upon overdue installments of interest on the Senior Notes at the rate or rates borne by such Senior Notes; (iv) all Other Senior Obligations which have become due other than as a direct result of such declaration of acceleration; (v) all other sums required to be paid to satisfy NorthStar's obligations with respect to the transmittal of moneys to be credited to the Collection Fund, the Acquisition Fund and the Interest Account under the provisions of the Indenture; and (vi) all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any paying agents, remarketing agents, tender agents, auction agents, market agents and broker-dealers; or

(B) if no Senior Obligations are Outstanding, but Subordinate Obligations are Outstanding: (i) all overdue installments of interest on all Subordinate Notes; (ii) the principal of (and premium, if any, on) any Subordinate Notes which have become due other than by such declaration of acceleration, together with interest thereon at the rate or rates borne by such Subordinate Notes; (iii) to the extent that payment of such interest is lawful, interest upon overdue installments of interest on the Subordinate Notes at the rate or rates borne by such Subordinate Notes; (iv) all Other Subordinate Obligations which have become due other than as a direct result of such declaration of acceleration; (v) all other sums required to be paid to satisfy NorthStar's obligations with respect to the transmittal of moneys to be credited to the Collection Fund, the Acquisition Fund and the Interest Account under the provisions of the Indenture; and (vi) all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any paying agents, remarketing agents, tender agents, auction agents and broker-dealers; or

(C) if no Senior Obligations and no Subordinate Obligations are Outstanding but Junior Subordinate Notes are Outstanding: (i) all overdue installments of interest on all Junior Subordinate Notes; (ii) the principal of (and premium, if any, on) any Junior Subordinate Notes which have become due other than by such declaration of acceleration, together with interest thereon at the rate or rates borne by such Junior Subordinate Notes; (iii) to the extent that payment of such interest is lawful, interest upon overdue installments of interest on the Junior

Subordinate Notes at the rate or rates borne by such Junior Subordinate Notes; (iv) all other sums required to be paid to satisfy the Issuer's obligations with respect to the transmittal of moneys to be credited to the Collection Fund, the Acquisition Fund and the Interest Account under the provisions of the Indenture; and (v) all sums paid or advanced by the Trustee under the Indenture and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel and any paying agents, remarketing agents, tender agents, auction agents, market agents and broker-dealers; and

(2) All Events of Default, other than the nonpayment of the principal of and interest on Notes or Other Obligations which have become due solely by, or as a direct result of, such declaration of acceleration, have been cured or waived as provided in the Indenture.

If an Event of Default has occurred and is continuing, the Trustee may, subject to applicable law, pursue any available remedy by suit at law or in equity to enforce the covenants of NorthStar in the Indenture and may pursue such appropriate judicial proceedings as the Trustee shall deem most effective to protect and enforce, or aid in the protection and enforcement of, the covenants and agreements in the Indenture. The Trustee is also authorized to file proofs of claims in any equity, receivership, insolvency, bankruptcy, liquidation, readjustment, reorganization or other similar proceedings.

If an Event of Default has occurred and is continuing, and if it shall have been requested so to do by the Acting Beneficiaries Upon Default and shall have been indemnified as provided in the Indenture, the Trustee is obliged to exercise such one or more of the rights and powers conferred by the Indenture as the Trustee shall deem most expedient in the interests of the Beneficiaries; provided, however, that the Trustee has the right to decline to comply with any such request if the Trustee shall be advised by counsel that the action so requested may not lawfully be taken or if the Trustee receives, before exercising such right or power, contrary instructions from the Acting Beneficiaries Upon Default.

The Acting Beneficiaries Upon Default have the right to direct the method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture; provided that (a) such direction shall not be otherwise than in accordance with the provisions of law and of the Indenture; (b) the Trustee shall not determine that the action so directed would be unjustly prejudicial to the Holders of Notes or Other Beneficiaries not taking part in such direction, other than by effect of the subordination of any of their interests thereunder; and (c) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction.

Except as may be permitted in a Supplemental Indenture with respect to an Other Beneficiary, no Holder of any Note or Other Beneficiary will have any right to institute any suit, action or proceeding in equity or at law for the enforcement of the Indenture or for the execution of any trust under the Indenture or for the appointment of a receiver or any other remedy under the Indenture unless (1) an Event of Default shall have occurred and be continuing, (2) the Acting Beneficiaries Upon Default shall have made written request to the Trustee, (3) such Beneficiary or Beneficiaries shall have offered to the Trustee indemnity, (4) the Trustee shall have thereafter failed for a period of 60 days after the receipt of the request and indemnification or refused to exercise the powers granted in the Indenture or to institute such action, suit or

proceeding in its own name and (5) no direction inconsistent with such written request shall have been given to the Trustee during such 60-day period by the Holders of not less than a majority in aggregate principal amount of the Notes then Outstanding or by any Other Beneficiary. No one or more Holders of the Notes or any Other Beneficiary shall have any right in any manner whatsoever to affect, disturb or prejudice the lien of the Indenture by his, her, its or their action or to enforce any right hereunder except in the manner described herein, and all proceedings at law or in equity shall be instituted, had and maintained in the manner herein described and for the benefit of the Holders of all Outstanding Notes and Other Beneficiaries as their interests may appear. Notwithstanding the foregoing provisions of the Indenture, the Acting Beneficiaries Upon Default may institute any such suit, action or proceeding in their own names for the benefit of the holders of all Outstanding Notes and Other Beneficiaries under the Indenture.

Unless the Trustee has declared the principal of and interest on all Outstanding Notes immediately due and payable and has obtained a judgment or decree for payment of the money due, the Trustee, will waive any Event of Default and its consequences upon written request of the Acting Beneficiaries Upon Default; except that the Trustee is not permitted to waive (a) any Event of Default arising from the acceleration of the maturity of the Notes, except upon the rescission and annulment of such declaration as described in the second paragraph under this caption "Remedies;" (b) any Event of Default in the payment when due of any amount owed to any Beneficiary (including payment of principal of or interest on any Note) except with the consent of such Beneficiary or unless, prior to such waiver, NorthStar has paid or deposited with the Trustee a sum sufficient to pay all amounts owed to such Beneficiary (including, to the extent permitted by law, interest upon overdue installments of interest); (c) any Event of Default arising from the failure of NorthStar to pay unpaid expenses of the Trustee, its agents and counsel, and any authenticating agent, paying agents, note registrars, tender agents, remarketing agents, auction agents, market agents and broker-dealers as required by the Indenture, unless, prior to such waiver, NorthStar has caused to be paid or deposited with the Trustee sums required to satisfy such obligations of NorthStar under the provisions of the Indenture; or (d) any default in respect of a covenant or provision of the Indenture which cannot be modified or amended without the consent of the Holder of each Note affected thereby.

Notwithstanding any other provisions of the Indenture, if an "event of default" (as defined therein) occurs under a Swap Agreement or a Credit Enhancement Facility and, as a result, any Other Beneficiary that is a party thereto is entitled to exercise one or more remedies thereunder, such Other Beneficiary may exercise such remedies, including, without limitation, the termination of such agreement, as provided therein, in its own discretion; provided that the exercise of any such remedy does not adversely affect the legal ability of the Trustee or Acting Beneficiaries Upon Default to exercise any remedy available under the Indenture.

### **Application of Proceeds**

All moneys received by the Trustee pursuant to any remedy will, after payment of the cost and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee with respect thereto, be applied as follows:

(A) Unless the principal of all the Outstanding Notes shall have become or shall have been declared due and payable, all such moneys will be applied as follows:

- FIRST, to the payment to the Senior Beneficiaries of all installments of principal and interest then due on the Senior Notes and all Other Senior Obligations (except termination payments due under Swap Agreements as a result of Swap Counterparty default), and if the amount available will not be sufficient to pay all such amounts in full, then to the payment ratably, in proportion to the amounts due without regard to due date, to the Senior Noteholders and to each Other Senior Beneficiary, without any discrimination or preference, and the Trustee will apply the amount so apportioned to the Senior Noteholders first to the payment of interest and thereafter to the payment of principal;
- SECOND (only if the Senior Asset Percentage would be at least 100% upon the application of such amounts or if there are no Senior Notes Outstanding) to the payment to the Subordinate Beneficiaries of all installments of principal and interest then due on the Subordinate Notes and all Other Subordinate Obligations (except termination payments due under Swap Agreements as a result of Swap Counterparty default), and if the amount available will not be sufficient to pay all such amounts in full, then to the payment ratably, in proportion to the amounts due, without regard to due date, to the Subordinate Noteholders and to each Other Subordinate Beneficiary, without any discrimination or preference, and the Trustee will apply the amount so apportioned to the Subordinate Noteholders first to the payment of interest and thereafter to the payment of principal;
- THIRD (only if both the Senior Asset Percentage and Subordinate Asset Percentage would be at least 100% upon the application of such amounts or there are no Senior Notes or Subordinate Notes Outstanding), to the payment to the Junior Subordinate Beneficiaries of all installments of principal and interest then due on the Junior Subordinate Notes, and if the amount available shall not be sufficient to pay all such amounts in full, then to the payment ratably, in proportion to the amounts due, without regard to due date, to the Junior Subordinate Noteholders, without any discrimination or preference, and the Trustee will apply the amount so apportioned to the Junior Subordinate Noteholders first to payment of interest and thereafter to the payment of principal;
- FOURTH, to the payment of the Holders of the Senior Notes of all Carry-Over Amounts (together with interest thereon) then due and payable in the order in which such amounts became due and payable, and if the amount available shall not be sufficient to pay in full all such Carry-Over Amounts (and interest thereon) which became due and payable on any particular date, then to the payment, ratably, according to the amounts due on such date, to the Senior Noteholders entitled thereto, without any discrimination or preference;
- FIFTH (only if the Senior Asset Percentage would be at least 100% upon the application of such amounts or if there are no Senior Notes Outstanding), to the payment to the Holders of the Subordinate Notes of all Carry-Over Amounts (together with interest thereon) then due and payable in the order in which such amounts became due and



payable, and if the amount available shall not be sufficient to pay in full all such Carry-Over Amounts (and interest thereon) which became due and payable on any particular date, then to the payment, ratably, according to the amounts due on such date, to the Subordinate Noteholders entitled thereto, without any discrimination or preference;

- SIXTH (only if both the Senior Asset Percentage and the Subordinate Asset Percentage would be at least 100% upon the application of such amounts or there are no Senior Notes or Subordinate Notes Outstanding), to the payment to the Holders of the Junior Subordinate Notes of all Carry-Over Amounts (together with interest thereon) then due and payable in the order in which such amounts became due and payable, and if the amount available shall not be sufficient to pay in full all such Carry-Over Amounts (and interest thereon) which became due and payable on any particular date, then to the payment, ratably, according to the amounts due on such date, to the Junior Subordinate Noteholders entitled thereto, without any discrimination or preference;
- SEVENTH, to the payment of termination payments then due and payable to Swap Counterparties under Senior Swap Agreements as a result of Swap Counterparty default, in the order in which such termination payments became due and payable, and if the amount available shall not be sufficient to pay in full all such termination payments which became due and payable on any particular date, then to the payment, ratably, according to the amounts due on such date, to the Senior Swap Counterparties entitled thereto, without any discrimination or preference; and
- EIGHTH (only if the Senior Asset Percentage would be at least 100% upon the application of such amounts or if there are no Senior Notes Outstanding), to the payment of termination payments then due and payable to Swap Counterparties under Subordinate Swap Agreements as a result of Swap Counterparty default, in the order in which such termination payments became due and payable, and if the amount available shall not be sufficient to pay in full all such termination payments which became due and payable on any particular date, then to the payment, ratably, according to the amounts due on such date, to the Subordinate Swap Counterparties entitled thereto, without any discrimination or preference.

(B) If the principal of all Outstanding Notes shall have become due or shall have been declared due and payable and such declaration has not been annulled and rescinded under the provisions of the Indenture, all such moneys will be applied as follows:

- FIRST, to the payment to the Senior Beneficiaries of all principal and interest then due on the Senior Notes and all Other Senior Obligations (except termination payments due under Swap Agreements, as a result of a Swap Counterparty default), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Senior Beneficiary over any other Senior Beneficiary, ratably, according to the amounts due, to the persons entitled thereto without any discrimination or preference;
- SECOND, to the payment to the Subordinate Beneficiaries of the principal and interest then due on the Subordinate Notes and all Other Subordinate Obligations (except

termination payments due under Swap Agreements, as a result of a Swap Counterparty default), without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Subordinate Beneficiary over any other Subordinate Beneficiary, ratably, according to the amounts due, to the person entitled thereto without any discrimination or preference;

- **THIRD**, to the payment to the Junior Subordinate Beneficiaries of the principal and interest then due and unpaid upon the Junior Subordinate Notes, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Junior Subordinate Beneficiary over any other Junior Subordinate Beneficiary, ratably, according to the amounts due, to the Persons entitled thereto without any discrimination or preference;
- **FOURTH**, to the payment of the Holders of the Senior Notes of all Carry-Over Amounts (together with interest thereon) then due and unpaid, without any preference or priority of Carry-Over Amounts over interest thereon or of interest thereon over Carry-Over Amounts, ratably, according to the amounts due, to the Senior Noteholders entitled thereto, without any discrimination or preference;
- **FIFTH**, to the payment to the Holders of the Subordinate Notes of all Carry-Over Amounts (together with interest thereon) then due and unpaid, without any preference or priority of Carry-Over Amounts over interest thereon or of interest thereon over Carry-Over Amounts, ratably, according to the amounts due, to the Subordinate Noteholders entitled thereto, without any discrimination or preference;
- **SIXTH**, to the payment to the Holders of the Junior Subordinate Notes of all Carry-Over Amounts (together with interest thereon) then due and unpaid, without any preference or priority of Carry-Over Amounts over interest thereon or of interest thereon over Carry-Over Amounts, ratably, according to the amounts due, to the Junior Subordinate Noteholders entitled thereto, without any discrimination or preference;
- **SEVENTH**, to the payment of termination payments then due and unpaid to Swap Counterparties under Senior Swap Agreements as a result of Swap Counterparty default, ratably, according to the amounts due on such date, to the Senior Swap Counterparties entitled thereto, without any discrimination or preference; and
- **EIGHTH**, to the payment of termination payments then due and unpaid to Swap Counterparties under Subordinate Swap Agreements as a result of Swap Counterparty default, ratably, according to the amounts due on such date, to the Subordinate Swap Counterparties entitled thereto, without any discrimination or preference.

(C) If the principal of all Outstanding Notes shall have been declared due and payable and if such declaration shall thereafter have been rescinded and annulled, then (subject to the provisions described in paragraph (B) above, if the principal of all the Outstanding Notes shall later become or be declared due and payable) the money held by the Trustee under the Indenture will be applied in accordance with the provisions described in paragraph (A) above.

## **Trustee**

Prior to the occurrence of an Event of Default which has not been cured, the Trustee is required to perform such duties and only such duties as are specifically set forth in the Indenture. Upon the occurrence and continuation of an Event of Default, the Trustee is required to exercise the rights and powers vested in it by Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in his own affairs.

Before taking any action under the Indenture, the Trustee may require that satisfactory indemnity be furnished to it for the reimbursement of all expenses to which it may be put and to protect it against all liability by reason of any action so taken, except liability which is adjudicated to have resulted from its negligence or willful misconduct.

The Trustee may at any time resign upon 60 days' notice to NorthStar and to the Beneficiaries, such resignation to take effect upon the appointment of a successor Trustee. The Trustee may be removed at any time by NorthStar, and NorthStar agrees to remove the Trustee at the request of the Holders of a majority in principal amount of Notes Outstanding except during the existence of an Event of Default. No such removal will be effective until the appointment of a successor Trustee.

## **Supplemental Indentures**

### *Supplemental Indentures Not Requiring Consent of Beneficiaries*

NorthStar and the Trustee may, from time to time and at any time, without the consent of, or notice to, any of the Noteholders or any Other Beneficiary, enter into an indenture or indentures supplemental to the Indenture to, among other things:

- (a) cure any ambiguity or formal defect or omission in the Indenture or in any Supplemental Indenture,
- (b) grant to the Trustee for the benefit of the Beneficiaries any additional rights, remedies, powers, authority or security,
- (c) describe or identify more precisely any part of the Trust Estate or subject additional revenues, properties or collateral to the lien and pledge of the Indenture,
- (d) evidence the appointment of a separate trustee or a co-trustee or the succession of a new Trustee under the Indenture,
- (e) authorize the issuance of a series of Notes, subject to the requirements of the Indenture (see "Description of the Indenture—Notes and Other Indenture Obligations—Issuance of Additional Notes"),
- (f) modify, eliminate from or add to the Indenture as shall be necessary to effect the qualification of the Indenture under the Trust Indenture Act of 1939 or any similar

federal statute, excluding, however, the provisions referred to in Section 316(a)(2) of the Trust Indenture Act of 1939,

- (g) modify, eliminate from or add to the Indenture as shall be necessary to acquire Eligible Loans described in clause (c) of the definition thereof,
- (h) modify the Indenture as required by any Credit Facility Provider or Swap Counterparty, or otherwise necessary to give effect to any Credit Enhancement Facility, Swap Agreement or Swap Counterparty Guaranty at the time of Issuance of a series of Notes to which such agreement relates; provided that the Rating Agency Condition is met with respect to such modifications; and provided further that no such modifications will be effective if the consent of any Noteholders would be required therefor under the proviso described under “—Supplemental Indentures Requiring Consent of Noteholders” and such consent has not been obtained or if the Trustee determines that such modifications are to the prejudice of any other Beneficiary,
- (i) create additional funds, accounts or sub-accounts under the Indenture,
- (j) to provide for an additional class of Indenture Obligations which is subordinate to each class of Indenture Obligations any of which are then Outstanding, except to the extent specifically authorized or permitted by the Supplemental Indenture authorizing the issuance of such Outstanding Indenture Obligations or to the extent consented to by each Beneficiary who would be adversely affected thereby; provided that the Rating Agency Condition is met with respect to such additional class of Indenture Obligations.
- (k) to amend the Indenture to provide for use of a surety bond or other financial guaranty instrument in lieu of cash and/or Investment Securities in all or any portion of the Reserve Fund, so long as such action shall not adversely affect the Ratings on any of the Notes, or
- (l) make any other change in the Indenture, if the Trustee shall have received written confirmation from each Rating Agency that such change will not cause the reduction or withdrawal of any rating or ratings then applicable to any Outstanding Notes.

#### *Supplemental Indentures Requiring Consent of Noteholders*

In addition to Supplemental Indentures described in the preceding paragraph, upon receipt of an instrument evidencing the consent to the below-mentioned Supplemental Indenture by: (1) if they are affected thereby, the Holders of not less than two-thirds of the aggregate principal amount of the Outstanding Senior Notes, (2) if they are affected thereby, the holders of not less than two-thirds of the aggregate principal amount of the Outstanding Subordinate Notes, (3) if they are affected thereby, the Holders of not less than two-thirds of the aggregate principal amount of the Outstanding Junior Subordinate Notes, and (4) each other person which must consent to such Supplemental Indenture as provided in any Supplemental Indenture, the Trustee will join with NorthStar in the execution of any Supplemental Indentures for the purpose of

modifying, altering, amending, adding to or rescinding any of the terms or provisions contained in the Indenture; provided, however, that no such Supplemental Indenture will permit without the consent of each Beneficiary which would be affected thereby: (a) an extension of the maturity of the principal of or the interest on any Note, whether at stated maturity, on a mandatory sinking fund payment date or otherwise, (b) a reduction in the principal amount, redemption price or purchase price of any Note or the rate of interest thereon, (c) a privilege or priority of any Senior Obligation over any other Senior Obligation, (d) a privilege or priority of any Subordinate Obligation over any other Subordinate Obligation, (e) a privilege of any Senior Notes over any Subordinate Notes or Junior Subordinate Notes, other than as theretofore provided in the Indenture, (f) a privilege of any Subordinate Notes over any Junior Subordinate Notes other than as provided herein, (g) the surrendering of a privilege or a priority granted by the Indenture if, in the judgment of the Trustee, to the detriment of another Beneficiary under the Indenture, (h) a reduction or an increase in the aggregate principal amount of the Notes required for consent to such Supplemental Indenture, (i) the creation of any lien ranking prior to or on a parity with the lien of the Indenture on the Trust Estate or any part thereof, except as expressly permitted in the Indenture, (j) any Beneficiary to be deprived of the lien created on the rights, title, interest, privileges, revenues, moneys and securities pledged under the Indenture, (k) the modification of any of the provisions of the Indenture described in this paragraph, or (l) the modification of any provision of a Supplemental Indenture which states that it may not be modified without the consent of the Holders of Notes issued pursuant thereto or any Notes of the same class or any Beneficiary that has provided a Credit Enhancement Facility or Swap Agreement of such class.

#### *Rights of Trustee*

If, in the opinion of the Trustee, any Supplemental Indenture adversely affects the rights, duties or immunities of the Trustee under the Indenture or otherwise, the Trustee may, in its discretion, decline to execute such Supplemental Indenture, except to the extent that the execution of such Supplemental Indenture may be required by the Indenture.

#### *Consent of Tender Agent, Remarketing Agents, Auction Agent, Broker-Dealers and Market Agent*

So long as any tender agent agreement, remarketing agreement, auction agent agreement, broker-dealer agreement or market agent agreement is in effect, no Supplemental Indenture which materially adversely affects the rights, duties or immunities of the tender agent, the remarketing agent, the auction agent, the broker-dealer or the market agent will become effective unless and until delivery to the Trustee of a written consent of the depositary, the remarketing agent, the auction agent or the broker-dealer, as the case may be, to such Supplemental Indenture.

#### **Discharge of Notes and Indenture**

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

(1) when such Note shall have been canceled, or shall have been purchased by the Trustee from moneys held by it under the Indenture; or

(2) as to any Note not canceled or so purchased, when payment of the principal of and the applicable redemption premium, if any, on such Note, plus interest on such principal to the due date thereof (whether by reason of stated maturity, upon prepayment or otherwise), either (a) shall have been made in accordance with the terms of the Indenture, or (b) shall have been provided for by irrevocably depositing with the Trustee exclusively for such payment, (i) moneys sufficient to make such payment or (ii) Government Obligations maturing as to principal and interest in such amount and at such times as will ensure the availability of sufficient moneys to make such payment and, if payment of all then Outstanding Notes is to be so provided for, the payment of all fees and expenses of the Trustee and any other fiduciaries under the Indenture.

### **Rights of Other Beneficiaries**

All rights of any Other Beneficiary under the Indenture to consent to or direct certain remedies, waivers, actions and amendments thereunder will cease for so long as such Other Beneficiary is in default of any of its obligations or agreements under the Swap Agreement or the Credit Enhancement Facility by reason of which such person is an Other Beneficiary.

### **GLOSSARY OF CERTAIN DEFINED TERMS**

Set forth below is a glossary of the principal defined terms used in this Offering Memorandum and not otherwise defined herein.

“*Account*” means any of the accounts created within the Funds established by the Indenture.

“*Acting Beneficiaries Upon Default*” means:

- (1) at any time that any Senior Obligations are Outstanding: (a) with respect to directing the Trustee to accelerate the Outstanding Notes upon an Event of Default, the Holders of a majority in aggregate principal amount of Senior Notes Outstanding; (b) with respect to requesting the Trustee to exercise rights and powers under the Indenture, directing the conduct of proceedings in connection with the enforcement of the Indenture and requiring the Trustee to waive Events of Default: (i) the Holders of a majority in aggregate principal amount of the Senior Notes Outstanding, unless the Trustee shall receive conflicting requests or directions from an Other Senior Beneficiary; or (ii) any Other Senior Beneficiary, unless the Trustee determines that the requested action is not in the overall interest of the Senior Beneficiaries or receives conflicting requests or directions from another Other Senior Beneficiary or the Holders of a majority in aggregate principal amount of the Senior Notes Outstanding; and (c) with respect to all other matters under the Indenture, the Holders of a majority in aggregate principal amount of Senior Notes Outstanding or any Other Senior Beneficiary; and
- (2) at any time that no Senior Obligations are Outstanding but Subordinate Obligations are Outstanding: (a) with respect to directing the Trustee to accelerate

the Outstanding Notes upon an Event of Default, the Holders of a majority in aggregate principal amount of Subordinate Notes Outstanding; (b) with respect to requesting the Trustee to exercise rights and powers under the Indenture, directing the conduct of proceedings in connection with the enforcement of the Indenture and requiring the Trustee to waive Events of Default: (i) the Holders of a majority in aggregate principal amount of the Subordinate Notes Outstanding, unless the Trustee receives conflicting requests or directions from an Other Subordinate Beneficiary; or (ii) any Other Subordinate Beneficiary, unless the Trustee determines that the requested action is not in the overall interest of the Subordinate Beneficiaries or receives conflicting requests or directions from another Other Subordinate Beneficiary or the Holders of a majority in aggregate principal amount of the Subordinate Notes Outstanding; and (c) with respect to all other matters under the Indenture, the Holders of a majority in aggregate principal amount of Subordinate Notes Outstanding or any Other Subordinate Beneficiary.

- (3) at any time that no Senior Obligations and no Subordinate Obligations are Outstanding but any Junior Subordinate Notes are Outstanding, the Holders of a majority in aggregate principal amount of Junior Subordinate Notes Outstanding.

*“Administrative Allowance”* means a monthly allowance equal to 1/12 of 0.5% of the ending principal balance of the Financed Student Loans, plus accrued interest thereon, during the preceding month (or such greater or lesser amount as may be directed by NorthStar; provided that each Rating Agency has confirmed in writing that the payment of such increased amount will not result in the withdrawal or reduction of any rating on the Notes), which shall be released to NorthStar each month to cover Servicing Fees and NorthStar’s other expenses (other than Note Fees) incurred in connection with carrying out and administering its powers, duties and functions under the Indenture and any related agreements.

*“Aggregate Value”* means on any calculation date the sum of the Values of all assets of the Trust Estate.

*“All Hold Rate”* on any date of determination, shall mean the applicable LIBOR-Based Rate less .25%, provided that in no event shall the applicable All Hold Rate be greater than the Maximum Rate.

*“Alternative Loan”* means a Student Loan which is not made pursuant to the Higher Education Act, but which may be (but is not required to be) guaranteed by a third party.

*“Alternative Loan Servicing Agreement”* means the servicing Agreement between Great Lakes Educational Loan Services, Inc., NorthStar and Firststar Bank, National Association dated November 1, 2000, as amended.

*“Applicable Interest Rate”* means the rate of interest per annum borne from time to time by a series of the Series 2000 Notes, which shall be (i) during the Initial Interest Period for such series, the Initial Interest Rate identified in the First Supplemental Indenture and (ii) during each Interest Period thereafter, the rate of interest determined in accordance with the Auction Procedures.

*“Applicable LIBOR-Based Rate”* shall mean (a) for an Auction Period of 35 days or less, One-Month LIBOR, (b) for an Auction Period of more than 35 days but less than 115 days, Three-Month LIBOR, (c) for an Auction Period of more than 114 days but less than 195 days, Six-Month LIBOR, and (d) for an Auction Period of more than 194 days, One-Year LIBOR.

*“Applicable Number of Business Days”* means the greater of two Business Days or one Business Day plus the number of Business Days by which the Auction Date precedes the first day of the next succeeding Interest Period.

*“Auction”* means the implementation of the Auction Procedures on an Auction Date.

*“Auction Date”* means, initially, with respect to the Series 2000A-1 Notes, December 11, 2000, with respect to the Series 2000A-2 Notes, December 18, 2000 and with respect to the Series 2000B Notes, December 11, 2000, and thereafter, with respect to each such series of Series 2000 Notes, the Business Day immediately preceding the first day of each Auction Period for such series, other than:

- (1) an Auction Period commencing after the ownership of such series is no longer maintained in Book-Entry Form by the Securities Depository;
- (2) an Auction Period commencing after and during the continuance of a Payment Default; or
- (3) an Auction Period commencing less than the applicable number of Business Days after the cure of a Payment Default.

*“Auction Period”* means the Interest Period applicable to each series of the Series 2000 Notes, which Auction Period (after the Initial Interest Period for each such series) initially shall consist generally of 28 days, as the same may be adjusted pursuant to the First Supplemental Indenture.

*“Auction Period Adjustment”* means, with respect to any series of the Series 2000 Notes, the ability of NorthStar to change the length of one or more Auction Periods to conform with then current market practice or accommodate other economic or financial factors that may affect or be relevant to the length of the Auction Period or the interest rate thereon.

*“Auction Procedures”* means the auction procedures that will be used in determining the interest rates on the Series 2000 Notes, as set forth in this Offering Memorandum under “Auction Procedures.”

*“Auction Rate”* means the interest rate that results from implementation of the Auction Procedures.

*“Authorized Denominations”* means \$50,000 and any multiple thereof.

*“Beneficial Owner”* means the person in whose name a Note is recorded as beneficial owner of such Note by a securities depository under a book-entry system or by a participant or indirect participant in such securities depository, as the case may be.



“*Beneficiaries*” means, collectively, all Senior Beneficiaries, all Subordinate Beneficiaries and all Junior Subordinate Beneficiaries.

“*Book-Entry Form*” means a form of ownership and registration under which (1) the beneficial right to principal and interest may be transferred only through a book entry, and (2) physical securities in registered form are issued only to a Securities Depository or its nominee as registered holder, with the securities “immobilized” to the custody of the Securities Depository.

“*Broker-Dealer*” means PaineWebber Incorporated or any other broker or dealer (each as defined in the Securities Exchange Act of 1934, as amended), commercial bank or other entity permitted by law to perform the functions required of a Broker-Dealer set forth in the Auction Procedures that (a) is a Participant (or an affiliate of a Participant), (b) has been appointed as such by NorthStar pursuant to the First Supplemental Indenture and (c) has entered into a Broker-Dealer Agreement that is in effect on the date of reference.

“*Business Day*” shall mean any day other than April 14, April 15, December 30, December 31, such other dates as may be agreed to in writing by the Market Agent, the Auction Agent, the Broker-Dealer and NorthStar, or a Saturday, Sunday, holiday or day on which banks located in the city of New York, New York, or the New York Stock Exchange, the Trustee or the Auction Agent, are authorized or permitted by law or executive order to close.

“*Carry-Over Amount*” means the excess, if any, of (a) the amount of interest on a Series 2000 Note that would have accrued with respect to the related Auction Period at the Auction Rate over (b) the amount of interest on such Series 2000 Note actually accrued with respect to such Series 2000 Note, with respect to such Auction Period based on the Maximum Rate, together with the unpaid portion of any such excess from prior Auction Periods; provided that any reference to “principal” or “interest” shall not include within the meanings of such words any Carry-Over Amount or any interest accrued on any Carry-Over Amount.

“*Consolidation Loan*” means a Student Loan made pursuant to Section 428C of the Higher Education Act.

“*Counterparty Swap Payment*” means a payment due to or received by NorthStar from a Swap Counterparty pursuant to a Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement) and amounts received by NorthStar under any related Swap Counterparty Guaranty.

“*Credit Enhancement Facility*” means, if and to the extent provided for in a Supplemental Indenture with respect to Notes of one or more series, (i) an insurance policy insuring, or a letter of credit or surety bond providing a direct or indirect source of funds for, the timely payment of principal of and interest on such Notes (but not necessarily principal due upon acceleration thereof) or (ii) a letter of credit, standby purchase agreement, or similar instrument, providing for the purchase of such Notes on a Tender Date, and in either case, all agreements entered into by NorthStar or the Trustee and the Credit Facility Provider with respect thereto.

“*Credit Facility Provider*” means any institution engaged by NorthStar pursuant to a Credit Enhancement Facility to provide credit enhancement or liquidity for the payment of the

principal of and interest on any or all of the Notes of one or more series, or for NorthStar's obligation to purchase Notes of one or more series on a Tender Date.

*"Date of Issuance"* means November 10, 2000, the date of initial issuance and delivery of the Series 2000 Notes.

*"Department of Education"* means U.S. Department of Education.

*"DTC"* means The Depository Trust Company.

*"DTC Participants"* means the participating organizations that utilize the services of DTC, including securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations.

*"Eligible Carry-Over Make-Up Amount"* means, with respect to each Interest Period relating to a series of Series 2000 Notes as to which, as of the first day of such Interest Period, there is any unpaid Carry-Over Amount, an amount equal to the lesser of (a) interest computed on the principal balance of such series in respect of such Interest Period at a per annum rate equal to the excess, if any, of the Maximum Rate over the Applicable Interest Rate, and (b) the aggregate Carry-Over Amount remaining unpaid as of the first day of such Interest Period together with interest accrued and unpaid thereon through the end of such Interest Period. The Eligible Carry-Over Make-Up Amount shall be \$0.00 for any Interest Period with respect to which the Maximum Auction Rate equals or exceeds the Auction Rate.

*"Eligible Lender Trust Agreement"* means the Trust Agreement dated as of November 1, 2000 between NorthStar, as grantor, and the Eligible Lender Trustee, as trustee, and any similar agreement entered into by NorthStar and an "eligible lender" under the Higher Education Act pursuant to which such eligible lender holds Financed FFELP Loans in trust for NorthStar, in each case as supplemented or amended from time to time.

*"Eligible Lender Trustee"* means Firstar Bank, National Association, as trustee under the Eligible Lender Trust Agreement, and its successors and assigns in such capacity.

*"Eligible Loan"* means: (A) a Student Loan which: (1) has been or will be made to a borrower for post-secondary education; (2) is a FFELP Loan which is Guaranteed; and (3) is an "eligible loan" as defined in Section 438 of the Higher Education Act for purposes of receiving Special Allowance Payments; or (B) a Student Loan which is an Alternative Loan that has been made pursuant to the NorthStar Loan Programs and (C) any other Student Loan if NorthStar shall have caused to be provided to the Trustee written advice from each Rating Agency that treating such type of loan as an Eligible Loan will not adversely affect any rating or ratings then applicable to any of the Notes.

*"ERISA"* means the Employee Retirement Income Security Act of 1974, as amended.

*"Event of Default"* means an event of default under the Indenture, as described under "Description of the Indenture—Events of Default."

*"Exchange Act"* means the Securities Exchange Act of 1934, as amended.

“*Federal Reimbursement Contract*” means any agreement between a Guarantee Agency and the Secretary of Education providing for the payment by the Secretary of Education of amounts authorized to be paid pursuant to the Higher Education Act, including (but not necessarily limited to) partial reimbursement of amounts paid or payable upon defaulted Financed FFELP Loans and other student loans guaranteed or insured by the Guarantee Agency and interest subsidy payments to holders of qualifying student loans Guaranteed by the Guarantee Agency.

“*FFEL Program*” means the Federal Family Education Loan Program established by the Higher Education Act pursuant to which loans are made to borrowers pursuant to certain guidelines, and the repayment of such loans is guaranteed by a Guarantee Agency, and any predecessor or successor program.

“*FFELP Guarantee Agreements*” means the blanket guarantee and other guarantee agreements issued by or from any Guarantee Agency to the Eligible Lender Trustee for the purpose of Guaranteeing FFELP Loans to be Financed under the Indenture, and any amendment of any of the foregoing entered into in accordance with the provisions thereof.

“*FFELP Loan*” means a Student Loan made pursuant to the Higher Education Act.

“*Financed*,” when used with respect to Student Loans, Eligible Loans, FFELP Loans or Alternative Loans, means Student Loans, Eligible Loans, FFELP Loans or Alternative Loans, as the case may be, acquired or originated by NorthStar or the Eligible Lender Trustee on behalf of NorthStar with moneys in the Acquisition Fund or the Surplus Fund, any Eligible Loans received in exchange for Financed Student Loans upon the sale thereof or substitution therefor in accordance with the Indenture and any other Student Loans deemed “Financed” with moneys in the Acquisition Fund and the Surplus Fund, but does not include Student Loans released from the lien of the Indenture and sold to any purchaser, including a trustee for the holders of NorthStar’s bonds, notes or other evidences of indebtedness issued other than pursuant to the Indenture.

“*Fund*” means any of the funds established by the Indenture.

“*Government Obligations*” means direct obligations of, or obligations the full and timely payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America.

“*Grace Period*” means a period of time, following a borrower’s ceasing to pursue at least a half-time course of study and prior to the commencement of a repayment period, during which principal need not be paid on certain Financed Student Loans.

“*Great Lakes Servicing Agreement*” means the Servicing Agreement between Great Lakes Educational Loan Services, Inc. and Firststar Bank, National Association dated November 1, 2000, as amended; the Servicing Agreement between Great Lakes Higher Education Servicing Corporation and Firststar Bank, National Association dated November 1, 2000, as amended.

“*Guarantee*” or “*Guaranteed*” means, with respect to a FFELP Loan, the insurance or guarantee by a Guarantee Agency, to the extent provided in the Higher Education Act, of the principal of and accrued interest on such FFELP Loan and the coverage of such FFELP Loan by

one or more Federal Reimbursement Contracts providing, among other things, for reimbursement to the Guarantee Agency for losses incurred by it on defaulted Financed Student Loans insured or guaranteed by the Guarantee Agency to the extent provided in the Higher Education Act.

“*Guarantee Agency*” means any state agency or private nonprofit institution or organization which has Federal Reimbursement Contracts in place and has entered into a FFELP Guarantee Agreement with the Eligible Lender Trustee, and any such guarantor’s successors and assigns.

“*Guarantee Agreement*” means any agreement between a Guarantee Agency and the Eligible Lender Trustee providing for the insurance or guarantee by such Guarantee Agency, to the extent provided in the Higher Education Act, of the principal of and accrued interest on Financed FFELP Loans acquired by the Trustee from time to time.

“*Higher Education Act*” means the Higher Education Act of 1965, as amended or supplemented from time to time, and all regulations promulgated thereunder.

“*Holder*,” when used with respect to any Note, means the Person in whose name such Note is registered in the Note Register except that to the extent and for the purposes provided in a Supplemental Indenture for a series of Notes (including, without limitation, for purposes of the definition of “*Acting Beneficiaries Upon Default*”), a Credit Facility Provider that has delivered a Credit Enhancement Facility with respect to such series of Notes may instead be treated as the Holder of the Notes of such series.

“*Indenture*” means the Indenture of Trust, dated as of November 1, 2000, from NorthStar and the Eligible Lender Trustee to the Trustee, as amended and supplemented from time to time.

“*Indenture Obligations*” means the Senior Obligations and the Subordinate Obligations.

“*Indirect Participants*” means organizations which have indirect access to the Securities Depository, such as securities brokers and dealers, banks, and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly.

“*Interest Period*” means, with respect to a series of Series 2000 Notes, the period from the Date of Issuance through the day immediately proceeding the initial Interest Rate Adjustment Date for such series and each period commencing on an Interest Rate Adjustment Date for such series and ending on the last day before (i) the next Interest Rate Adjustment Date for such series or (ii) the stated maturity of such series, as applicable.

“*Interest Rate Adjustment Date*” means the date on which the interest rate on a series of Series 2000 Notes is effective, which for each series of Series 2000 Notes shall be the date of commencement of each Auction Period for such series.

“*Interest Rate Determination Date*” means for each series of Series 2000 Notes, the Auction Date for such series, or, if no Auction Date is applicable to such series, the Business Day immediately preceding the date of commencement of an Auction Period.

“*Joint Sharing Agreement*” means the Joint Sharing Agreement dated as of November 1, 2000 among NorthStar, Firststar Bank, National Association, T.H.E. Funding and Chase Manhattan Trust Company, National Association as supplemented and amended.

“*Junior Subordinate Asset Percentage*” means, as of the date of determination, the percentage resulting by dividing (i) the difference of the Aggregate Value less the sum of (a) all accrued interest on Outstanding Notes, (b) all accrued Issuer Swap Payments, and (c) all accrued fees with respect to Credit Enhancement Facilities, by (ii) the aggregate principal amount of Outstanding Notes.

“*Junior Subordinate Beneficiaries*” shall mean the Holders of any Outstanding Junior Subordinate Notes.

“*Junior Subordinate Notes*” means any Notes designated in a Supplemental Indenture as Junior Subordinate Notes, which are secured under the Indenture on a basis subordinate to any Senior Obligations and Subordinate Obligations (as such subordination is described herein).

“*Lender*” means any party from which NorthStar (or the Eligible Lender Trustee on behalf of NorthStar) acquires Financed Student Loans, which, in the case of FFELP Loans, must be an “eligible lender” (as defined in the Higher Education Act).

“*LIBOR Determination Date*” means the Auction Date, or if no Auction Date is applicable, the Business Day immediately preceding the first day of each Interest Period.

“*Maximum Auction Rate*” means, for any Auction, a per annum interest rate on the ARCs which, when taken together with the interest rate on the Series 2000 Notes for the one-year period ending on the final day of the proposed Auction Period, would result in the average interest rate on the Series 2000 Notes for such period either (a) not being in excess (on a per annum basis) of the average of the Ninety-One Day United States Treasury Bill Rate plus 1.20% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the Series 2000 Notes are “Aa3” or “AA-” or better), (b) not being in excess (on a per annum basis) of the Ninety-One Day United States Treasury Bill Rate plus 1.50% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the Series 2000 Notes is less than “Aa3” or “AA-” but both are at least any category of “A”), or (c) not being in excess (on a per annum basis) of the average of Ninety-One Day United States Treasury Bill Rate plus 1.75% for such one-year period (if any one of the ratings assigned by the Rating Agencies to the Series 2000 Notes is less than the lowest category of “A”); provided, however, that if the Series 2000 Notes have not been Outstanding for at least such one-year period then for any portion of such period during which such Series 2000 Notes were not Outstanding, the interest rates on the Series 2000 Notes for purposes of this definition shall be deemed to be equal to such rates as the Market Agent shall determine were the rates of interest on equivalently rated auction securities with comparable lengths of auction periods during such period; provided, however, that this definition may be modified at the direction of NorthStar upon receipt by the Trustee of (A) written consent of the Market Agent and (B) written consent from each Rating Agency then rating the Series 2000 Notes that such change will not in and of itself result in a reduction of the rating on any Series 2000 Notes. For purposes of the Auction Agent and the Auction Procedures, the ratings referred to in this definition shall be the last ratings of which the Auction Agent has been given

notice pursuant to the Auction Agent Agreement. The percentage amount to be added to the Ninety-One Day United States Treasury Bill Rate in any one or more of (a), (b) or (c) above may be increased by delivery to the Auction Agent and the Trustee of a certificate signed by an Authorized Officer of NorthStar directing such increase, together with satisfaction of the Rating Agency Condition with respect to such increase.

“*Maximum Interest Rate*” means the lesser of (a) 18% per annum or (b) the highest rate NorthStar may legally pay, from time to time, as interest on the Series 2000 Notes.

“*Maximum Rate*” on any date of determination, means the interest rate per annum equal to the lesser of: (a) the Maximum Auction Rate; and (b) the Maximum Interest Rate.

“*Monthly Calculation Date*” means the 25th day of each calendar month (or, if such 25th day is not a Business Day, the next succeeding Business Day).

“*Monthly Servicing Report*” means the monthly report concerning the Financed Student Loans prepared by NorthStar in accordance with the Indenture.

“*Moody’s*” means Moody’s Investors Service, and its successors and assigns and if such corporation shall be dissolved or liquidated or shall no longer perform the function of a securities rating agency, “Moody’s” shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee at the written direction of NorthStar.

“*Ninety-One Day United States Treasury Bill Rate*” means the bond-equivalent yield on the 91-day United States Treasury Bills sold at the last auction thereof that immediately precedes the Auction Date, as determined by the Market Agent on the Auction Date.

“*NorthStar*” means Northstar Guarantee, Inc., Division B, a Minnesota membership organization whose sole member is Great Lakes Higher Education Corporation a nonprofit corporation duly organized and existing under the laws of the State of Wisconsin, and any successor or assignee thereto.

“*NorthStar Swap Payment*” means a payment due to a Swap Counterparty from NorthStar pursuant to the applicable Swap Agreement (including, but not limited to, payments in respect of any early termination of such Swap Agreement).

“*Note Fees*” means the fees, costs and expenses (excluding costs of issuance) of the Trustee and any Eligible Lender Trustee, paying agents, authenticating agent, remarketing agents, tender agent, auction agents, broker-dealers, counsel, note registrar, market agents or independent accountants and other consultants and professionals incurred by NorthStar in carrying out and administering its powers, duties and functions under (1) the Repurchase Agreement, any Servicing Agreement, the Eligible Lender Trust Agreement, the Guarantee Agreements, the Marketing Agreement, the Program, the Higher Education Act, or any requirement of the laws of the United States or any State with respect to the Program, as such powers, duties and functions relate to Financed Student Loans, (2) any Swap Agreements and any Credit Enhancement Facilities (other than any amounts payable thereunder which constitute Other Indenture Obligations), (3) any remarketing agreement, tender agent agreement, auction agent agreement, market agent agreement or broker-dealer agreement and (4) the Indenture.

“*Noteholder*” means the Holder of any Note.

“*Notes*” means all notes issued by NorthStar under the Indenture.

“*One-Month LIBOR,*” “*Three-Month LIBOR,*” “*Six-Month LIBOR*” or “*One-Year LIBOR*” means, the offered rate, as determined by the Auction Agent or Trustee, as applicable, of the Applicable LIBOR-Based Rate for United States dollar deposits which appears on Telerate Page 3750, as reported by Bloomberg Financial Markets Commodities News (or such other page as may replace Telerate Page 3750 for the purpose of displaying comparable rates) as of approximately 11:00 a.m., London time, on the LIBOR Determination Date; provided, that if on any calculation date, no rate appears on Telerate Page 3750 as specified above, the Auction Agent or Trustee, as applicable, shall determine the arithmetic mean of the offered quotations of four major banks in the London interbank market, for deposits in U.S. dollars for the respective periods specified above to the banks in the London interbank market as of approximately 11:00 a.m., London time, on such calculation date and in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market and at such time, unless fewer than two such quotations are provided, in which case, the Applicable LIBOR Based Rate shall be the arithmetic mean of the offered quotations that leading banks in New York City selected by the Auction Agent or Trustee, as applicable, are quoting on the relevant LIBOR Determination for loans in U.S. dollars to leading European banks in a principal amount of not less than \$1,000,000 that is representative of a single transaction in such market at such time. All percentages resulting from such calculations shall be rounded upwards, if necessary, to the nearest one-hundredth of one percent.

“*Originating Lender*” means University National Bank and PNC Bank, N.A.

“*Other Beneficiary*” means an Other Senior Beneficiary or an Other Subordinate Beneficiary.

“*Other Indenture Obligations*” means, collectively, the Other Senior Obligations and Other Subordinate Obligations.

“*Other Senior Beneficiary*” means a person or entity who is a Senior Beneficiary other than as a result of ownership of Senior Notes.

“*Other Senior Obligations*” means NorthStar’s obligations to pay any amounts under any Senior Swap Agreements and any Senior Credit Enhancement Facilities.

“*Other Subordinate Beneficiary*” means a person or entity who is a Subordinate Beneficiary other than as a result of ownership of Subordinate Notes.

“*Other Subordinate Obligations*” means NorthStar’s obligations to pay any amounts under any Subordinate Swap Agreements and any Subordinate Credit Enhancement Facilities.

“*Outstanding*” means, when used with respect to Notes, all Notes other than (a) any Notes deemed no longer Outstanding as a result of the purchase, payment or defeasance thereof, (b) any Notes surrendered for transfer or exchange for which another Note has been issued under the Indenture, (c) Notes owned by NorthStar, or (d) any Notes deemed tendered.

“*Participant*” means a member of, or participant in, the Securities Depository.

“*Payment Default*” means, with respect to a series of Series 2000 Notes, (i) a default in the due and punctual payment of any installment of interest on such series, or (ii) the circumstance that on any Auction Date, there are insufficient moneys in the Debt Service Fund to pay, or otherwise held by the Trustee under the Indenture and available to pay, the principal of and interest due on the Series 2000 Notes of such series on the Interest Payment Date immediately following such Auction Date.

“*Rating Agency*” means (1) with respect to the Notes, any rating agency that shall have an outstanding rating on any of the Notes pursuant to request by NorthStar and (2) with respect to investment securities, any rating agency that has an outstanding rating on the applicable investment security.

“*Repurchase Agreement*” means the Repurchase Agreement, dated as of November 1, 2000, as amended, between NorthStar and NCMS, the Eligible Lender Trustee and Firststar Bank National Association, as eligible lender trustee for NCMS, providing for the repurchase of any Student Loan or Alternative Loan which ceases to be an Eligible Loan, and any similar agreement.

“*Reserve Fund Requirement*” means, with respect to the Series 2000 Notes at any time, an amount equal to (i) one percent of the aggregate principal amount of the Series 2000 Notes then Outstanding, or (ii) such other amount specified as the Reserve Fund Requirement in a Supplemental Indenture; provided, however, that in no event shall the amount on deposit be less than \$500,000.

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

“*Securities Act*” means the Securities Act of 1933, as amended.

“*Securities Depository*” means DTC or, if (i) the then-existing Securities Depository resigns from its functions as depository of the Series 2000 Notes or (ii) NorthStar discontinues use of the Securities Depository pursuant to the Indenture, then any other securities depository which agrees to follow the procedures required to be followed by a securities depository in connection with the Series 2000 Notes and which is selected by NorthStar with the consent of the Trustee.

“*Senior Asset Percentage*” means, as of the date of determination, the percentage resulting by dividing the (A) difference of the Aggregate Value less the sum of (1) all accrued interest on Outstanding Senior Notes, (2) all accrued NorthStar Swap Payments with respect to Senior Swap Agreements, and (3) all accrued fees with respect to Senior Credit Enhancement Facilities, by (B) the aggregate principal amount of Outstanding Senior Notes.



“*Senior Asset Requirement*” means, as of the date of determination, the Senior Asset Percentage is at least equal to 105% and the Subordinate Asset Percentage is at least equal to 100.5%.

“*Senior Beneficiaries*” means (1) the Holders of any Outstanding Senior Notes, and (2) any other Senior Beneficiary holding Other Senior Obligations then Outstanding.

“*Senior Credit Enhancement Facility*” means a Credit Enhancement Facility designated as a Senior Credit Enhancement Facility in the Supplemental Indenture pursuant to which such Credit Enhancement Facility is furnished by NorthStar.

“*Senior Credit Facility Provider*” means any person or entity who provides a Senior Credit Enhancement Facility.

“*Senior Notes*” means any Notes designated in a Supplemental Indenture as Senior Notes, which are secured under the Indenture on a basis senior to any Subordinate Obligations and any Junior Subordinate Obligations, and on a parity with other Senior Obligations.

“*Senior Obligations*” means, collectively, the Senior Notes and the Other Senior Obligations.

“*Senior Swap Agreement*” means a Swap Agreement designated as a Senior Swap Agreement in the Supplemental Indenture pursuant to which such Swap Agreement is furnished by NorthStar.

“*Senior Swap Counterparty*” means any person or entity who provides a Senior Swap Agreement.

“*Servicer*” means any organization with which NorthStar has, or NorthStar and the Eligible Lender Trustee have, entered into a Servicing Agreement; in any case, so long as such party acts as servicer of the Financed Student Loans.

“*Servicing Agreement*” means any agreement between NorthStar and a Servicer (or among NorthStar, the Eligible Lender Trustee and a Servicer) under which the Servicer agrees to act as NorthStar’s agent in connection with the administration and collection of Financed Student Loans in accordance with the Indenture.

“*Servicing Fees*” means any fees payable by NorthStar to (1) a Servicer in respect of Financed Student Loans pursuant to the provisions of a Servicing Agreement and (2) a collection agent in respect of Financed Student Loans in default.

“*Special Allowance Payments*” means special allowance payments authorized to be made by the Secretary of Education by Section 438 of the Higher Education Act, or similar allowances authorized from time to time by federal law or regulation.

“*Student Loan*” means a loan to a borrower for or in connection with post-secondary education, bar preparation expenses or medical residency expenses.

“*Subordinate Asset Percentage*” means, as of the date of determination, the percentage resulting by dividing (A) the difference of the Aggregate Value less the sum of (1) all accrued interest on Outstanding Senior Notes and Outstanding Subordinate Notes, (2) all accrued NorthStar Swap Payments, and (3) all accrued fees with respect to Credit Enhancement Facilities, by (B) the aggregate principal amount of Outstanding Senior Notes and Outstanding Subordinate Notes.

“*Subordinate Beneficiaries*” means (1) the Holders of any Outstanding Subordinate Notes, and (2) any Other Subordinate Beneficiary holding any Other Subordinate Obligation then Outstanding.

“*Subordinate Credit Enhancement Facility*” means a Credit Enhancement Facility designated as a Subordinate Credit Enhancement Facility in the Supplemental Indenture pursuant to which such Credit Enhancement Facility is furnished by NorthStar.

“*Subordinate Credit Facility Provider*” means any person or entity who provides a Subordinate Credit Enhancement Facility.

“*Subordinate Notes*” means any Notes designated in a Supplemental Indenture as Subordinate Notes, which are secured under the Indenture on a basis subordinate to any Senior Obligations, on a basis senior to any Junior Subordinate Obligations and on a parity with Other Subordinate Obligations.

“*Subordinate Obligations*” means, collectively, the Subordinate Notes and the Other Subordinate Obligations.

“*Subordinate Swap Agreement*” means a Swap Agreement designated as a Subordinate Swap Agreement in the Supplemental Indenture pursuant to which such Swap Agreement is furnished by NorthStar.

“*Subordinate Swap Counterparty*” means any person or entity who provides a Subordinate Swap Agreement.

“*Supplemental Indenture*” means any amendment of or supplement to the Indenture made in accordance with the provisions thereof.

“*Swap Agreement*” means an interest rate or other hedge agreement between NorthStar and a Swap Counterparty as supplemented or amended from time to time.

“*Swap Counterparty*” means any person or entity with whom NorthStar shall, from time to time, enter into a Swap Agreement.

“*Tender Date*” means, with respect to any Note, a date on which such Note is required to be tendered for purchase by or on behalf of NorthStar, or has been tendered for purchase by or on behalf of NorthStar pursuant to a right given the Holder or Beneficial Owner of such Note, in accordance with the provisions in the Supplemental Indenture providing for the issuance thereof.

“*T.H.E. Bonus Deposit*” initially means an amount equal to 130 basis points per annum multiplied by the Principal Balance of the Financed Student Loans in repayment (and not delinquent more than 60 days) calculated and transferred monthly from the Collection Account to NorthStar on each Monthly Calculation Date. Such amounts shall be made through October 31, 2002, unless extended or amended, as to timing or amount by NorthStar (provided that the Rating Agency Condition is met with respect to such extension or amendment).

“*Transferor*” means T.H.E. Funding, L.L.C., a Delaware limited liability company of which NorthStar is the sole member.

“*Trust Estate*” means all rights, title, interest and privileges of NorthStar and/or the Eligible Lender Trustee (1) with respect to Financed Student Loans, in, to and under any Servicing Agreement, the Eligible Lender Trust Agreement, the Repurchase Agreements and the Guarantee Agreements, (2) in, to and under all Financed Student Loans (including the evidences of indebtedness thereof and related documentation), the proceeds of the sale of the Notes (until expended for the purpose for which the Notes were issued) and the revenues, moneys, evidences of indebtedness and securities (including any earnings thereon) in and payable into the Acquisition Fund, Debt Service Fund, Collection Fund, Alternative Loan Loss Reserve Fund, Reserve Fund, Administration Fund and Surplus Fund, in the manner and subject to the prior applications provided in the Indenture, and (3) in, to and under any Credit Enhancement Facility, any Swap Agreement, any Swap Counterparty Guaranty, any Tender Agent Agreement, any Remarketing Agreement, any Auction Agent Agreement, any Market Agent Agreement and any Broker-Dealer Agreement, including any contract or any evidence of indebtedness or other rights of the Issuer to receive any of the same whether now existing or hereafter coming into existence, and whether now or hereafter acquired.

“*Trustee*” means Firststar Bank, National Association, in its capacity as trustee under the Indenture, and any successor or assign in that capacity, and any other corporation which may at any time be substituted in its place pursuant to the Indenture.

“*Unsubsidized Stafford Loan*” means a Student Loan made pursuant to Section 428H of the Higher Education Act.

“*Values*” means, on any calculation date when required under the Indenture, the value of the Trust Estate calculated by NorthStar, in accordance with the following:

1. with respect to any Eligible Loan, the Principal Balance thereof, plus accrued interest and Special Allowance Payments thereon; *provided, however*, such amount shall not include the Principal Balance of any Alternative Loan that is more than 180 days delinquent;
2. with respect to any funds of NorthStar on deposit in any commercial bank or as to any banker’s acceptance or repurchase agreement or investment agreement, the amount thereof plus accrued interest thereon;
3. with respect to any investment securities of an investment company, the bid price, or the net asset value if there is no bid price, of the shares as reported by the investment company;

4. as to other investments, (a) the bid price published by a nationally recognized pricing service, or (b) if the bid and asked prices thereof are published on a regular basis by Bloomberg Financial Markets Commodities News (or, if not there, then in *The Wall Street Journal*), the average of the bid and asked prices for such investments so published on or most recently prior to such time of determination plus accrued interest thereon;

5. as to investments the bid prices of which are not published by a nationally recognized pricing service and the bid and asked prices of which are not published on a regular basis by Bloomberg Financial Markets Commodities News (or, if not there, then in *The Wall Street Journal*) the lower of the bid prices at such time of determination for such investments by any two nationally recognized government securities dealers (selected by NorthStar in its absolute discretion) at the time making a market in such investments, plus accrued interest thereon; and

6. any accrued but unpaid Swap Counterparty Payment, unless the Swap Counterparty is in default of its obligations under the Swap Agreement.

### **THE TRUSTEE AND THE ELIGIBLE LENDER TRUSTEE**

Firststar Bank, a national banking association organized under the laws of the United States, is the Trustee under the Indenture. The office of the Trustee for purposes of administering the Trust Estate and its other obligations under the Indenture is located at 425 Walnut Street, Box 111-8, Cincinnati, OH 45201-1118, Attention: Corporate Trust Services.

The Higher Education Act provides that only “eligible lenders” (defined to include banks and certain other entities) may hold title to student loans made under the FFEL Program. Because NorthStar does not qualify as an “eligible lender,” Firststar Bank, National Association, in its capacity as Eligible Lender Trustee will hold title to all Financed FFELP Loans in trust on behalf of NorthStar. The Eligible Lender Trustee will agree under the Eligible Lender Trust Agreement to maintain its status as an “eligible lender” under the Higher Education Act. In addition, the Eligible Lender Trustee on behalf of NorthStar will enter into a Guarantee Agreement with each of the Guarantee Agencies that have guaranteed Financed FFELP Loans. Failure of the Financed FFELP Loans to be owned by an eligible lender would result in the loss of guarantee payments, Interest Subsidy Payments and Special Allowance Payments with respect thereto. See “Description of the FFEL Program” and “Risk Factors-Offset by guarantee agencies or the Department of Education could reduce the amounts of available for payment of the Series 2000 Notes.”

### **FEDERAL INCOME TAX CONSEQUENCES**

#### **Certain Federal Income Tax Consequences**

The following is a summary of the principal federal income tax consequences resulting from the ownership of Series 2000 Notes by certain persons. This summary does not consider all the possible Federal tax consequences of the purchase, ownership or disposition of the Series 2000 Notes and is not intended to reflect the individual tax position of any owner. Moreover, except as expressly indicated, it addresses initial purchasers of a Series 2000 Note that

(a) purchase at a price equal to the first price to the public at which a substantial amount of each series of the Series 2000 Notes is sold and (b) who hold the Series 2000 Notes as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended. This summary does not address owners that may be subject to special tax rules, such as banks, insurance companies, dealers in securities or currencies, purchasers that hold Series 2000 Notes (or foreign currency) as a hedge against currency risks or as part of a straddle with other investments or as part of a “synthetic security” or other integrated investment (including a “conversion transaction”) comprised of a Series 2000 Note and one or more other investments, or purchasers that have a “functional currency” other than the U.S. dollar. Except to the extent discussed below under “—Non-United States Holders,” this summary is not applicable to non-United States persons not subject to federal income tax on their worldwide income. This summary is based upon the United States federal tax laws and regulations currently in effect and as currently interpreted and does not take into account possible changes in the tax laws or its interpretations, any of which may be applied retroactively. It does not discuss the tax laws of any state, local or foreign governments.

Persons considering the purchase of Series 2000 Notes should consult their own tax advisors concerning the Federal income tax consequences to them in light of their particular situations as well as any consequences to them under the laws of any other taxing jurisdiction.

## **United States Holders**

### *Characterization of the Series 2000 Notes as Indebtedness*

In the opinion of Chapman and Cutler, based upon certain assumptions and certain representations of NorthStar, the Series 2000 Notes will be treated as debt for federal income tax purposes. However, NorthStar has not sought a ruling from the Internal Revenue Service in this regard. Unlike a ruling from the Internal Revenue Service, the opinion of Chapman and Cutler is not binding on the courts or the Internal Revenue Service. Thus, it is possible that the Internal Revenue Service could successfully assert, on audit or in court, that, for purposes of the Internal Revenue Code, the transaction contemplated by this Offering Memorandum constitutes a sale of the assets comprising the Trust Estate (or an interest therein) to the Series 2000 Noteholders or that the relationship which will result from this transaction is that of a partnership, or an association taxable as a corporation.

If, instead of treating the Series 2000 Notes as debt, the transaction were treated as creating a partnership among the Series 2000 Noteholders and NorthStar, which has purchased the underlying Trust Estate assets, the resulting partnership would not be subject to federal income tax, unless such partnership were treated as a publicly traded partnership taxable as a corporation. Rather, NorthStar and each Series 2000 Noteholder would be taxed individually on their respective distributive shares of the partnership’s income, gain, loss, deductions and credits. The amount and timing of items of income and deduction of the Series 2000 Noteholder may differ if the Series 2000 Notes were held to constitute partnership interests, rather than indebtedness.

If, alternatively, it were determined that this transaction created an entity other than NorthStar which was classified as a corporation or a publicly traded partnership taxable as a

corporation and was treated as having sold the assets comprising the Trust Estate, such entity would be subject to federal income tax at corporate income tax rates on the income it derives from the Financed Eligible Loans and other assets, which would reduce the amounts available for payment to the Series 2000 Noteholders. Cash payments to the Series 2000 Noteholders generally would be treated as dividends for tax purposes to the extent of such corporation's earnings and profits. A similar result would apply if the Series 2000 Noteholders were deemed to have acquired stock or other equity interests in NorthStar. However, as noted above, NorthStar has been advised that the Series 2000 Notes will be treated as debt for federal income tax purposes.

NorthStar expresses in the Indenture its intent that, for applicable tax purposes, the Series 2000 Notes will be indebtedness of NorthStar secured by the Trust Estate. NorthStar and the Series 2000 Noteholders, by accepting the Series 2000 Notes, have agreed to treat the Series 2000 Notes as indebtedness of NorthStar for federal income tax purposes. NorthStar intends to treat this transaction as a financing reflecting the Series 2000 Notes as its indebtedness for tax and financial accounting purposes rather than a sale of the Trust Estate for such purposes.

In general, the characterization of a transaction as a sale of property, for federal income tax purposes, is a question of fact, the resolution of which is based upon the economic substance of the transaction, rather than its form or the manner in which it is characterized. While the Internal Revenue Service and the courts have set forth several factors to be taken into account in determining whether the substance of a transaction is a sale of property or an issuance of debt secured by the property in question, the primary factor in making this determination is whether the transferee has assumed the risk of loss or other economic burdens relating to the property and has obtained the benefits of ownership thereof. Notwithstanding the foregoing, in some instances, courts have held that a taxpayer is bound by the particular form it has chosen for a transaction, even if the substance of the transaction does not accord with its form.

NorthStar believes that it has retained the preponderance of the primary benefits and burdens associated with the Financed Eligible Loans and other assets comprising the Trust Estate and should therefore be treated as the owner of such assets for federal income tax purposes. If, however, the Internal Revenue Service were to successfully assert that this transaction should be treated as a sale of the Trust Estate assets, the Internal Revenue Service could further assert that the entity created pursuant to the Indenture, as the owner of the Trust Estate for federal income tax purposes, should be deemed engaged in a business and, therefore, characterized as an association taxable as a corporation or a publicly traded partnership taxable as a corporation.

#### *Payments of Interest*

In general, interest on a Series 2000 Note will be taxable to a owner who or which is (1) a citizen or resident of the United States, (2) a corporation created or organized under the laws of the United States or any State (including the District of Columbia) or (3) a person otherwise subject to Federal income taxation on its worldwide income (a "United States holder") as ordinary income at the time it is received or accrued, depending on the holder's method of accounting for tax purposes. If a partnership holds Series 2000 Notes, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the

partnership. Partners of partnerships holding Series 2000 Notes should consult their tax advisors.

Although the matter is not free from doubt, it is anticipated that the Series 2000 Notes will be treated as providing for stated interest at “qualified floating rates,” as this term is defined by applicable Treasury regulations, and accordingly as having been issued without original issue discount. NorthStar intends to report interest income in respect of the Series 2000 Notes in a manner consistent with this treatment. If it were to be determined that the Series 2000 Notes do not provide for stated interest at qualified floating rates, the Series 2000 Notes would be treated as having been issued with original issue discount. In that event, the Series 2000 Noteholder would be required to include original issue discount in gross income as it accrues on a constant yield to maturity basis in advance of the receipt of any cash attributable to the income, regardless of whether the holder is a cash or accrual basis taxpayer. NorthStar anticipates, however, that even if the Series 2000 Notes were treated as issued with original issue discount under these circumstances, the amount which a Series 2000 Noteholder would be required to include in income currently under this method would not differ materially from the amount of interest on the Series 2000 Note otherwise includable in income.

Although the matter is also not free from doubt, NorthStar intends to take the position that the Carry-Over Amounts are taxable as interest payments when received or accrued, depending on the Series 2000 Noteholder’s method of accounting.

#### *Series 2000 Notes Purchased at a Market Discount*

A Series 2000 Note, whether or not issued with original issue discount, will be subject to the “market discount rules.” In general, market discount is the excess of the stated redemption price at maturity of a Series 2000 Note less the holder’s basis in a Series 2000 Note. Thus, market discount generally will occur where a holder acquires a Series 2000 Note for an amount that is less than the Series 2000 Note’s issue price (or revised issue price if a Series 2000 Note is treated as being issued with an original issue discount), unless such difference is less than a specified *de minimis* amount.

In general, any partial payment of principal or any gain recognized on the maturity or disposition of a market discount note will be treated as ordinary income to the extent that such gain or payments of principal do not exceed the accrued market discount on such note. Alternatively, a United States holder of a market discount note may elect to include market discount in income currently over the life of the market discount note. That election applies to all debt instruments with market discount acquired by the electing United States holder on or after the first day of the first taxable year to which the election applies and may not be revoked without the consent of the Internal Revenue Service.

Market discount accrues on a straight-line basis unless the United States holder elects to accrue such discount on a constant yield to maturity basis. That election is applicable only to the market discount note with respect to which it is made and is irrevocable. A United States holder of a market discount note that does not elect to include market discount in income currently generally will be required to defer deductions for interest on borrowings allocable to the note in

an amount not exceeding the accrued market discount on such note until the maturity or disposition of the note.

#### *Purchase, Sale, Exchange and Retirement of the Series 2000 Notes*

A United States holder's tax basis in a Series 2000 Note generally will equal its cost, increased by any market discount and original issue discount included in the United States holder's income with respect to the Series 2000 Note. A United States holder generally will recognize gain or loss on the sale, exchange or retirement of a Series 2000 Note equal to the difference between the amount realized on the sale or retirement and the United States holder's tax basis in the Series 2000 Note. Except to the extent described above under "—Series 2000 Notes Purchased at a Market Discount," and except to the extent attributable to accrued but unpaid interest, gain or loss recognized on the sale, exchange or retirement of a Series 2000 Note will be capital gain or loss and will be long-term capital gain or loss if the Series 2000 Note was held for more than one year. In the event that the Series 2000 Notes were treated as issued with original issue discount as a result of the Carry-Over Amounts, as discussed in "—Payments of Interest" above, a portion of this gain attributable to interest accrued under the original issue discount rules would be recharacterized as ordinary gain or if instead of a gain a loss occurred, a portion of the loss attributable to interest accrued under the original issue discount rules would be recharacterized as ordinary loss.

#### **Non-United States Holders**

The following is a general discussion of certain United States federal income and estate tax consequences resulting from the beneficial ownership of Series 2000 Notes by a person other than a United States holder or a former United States citizen or resident (a "non-United States holder").

Subject to the discussions of Carry-Over Amounts and backup withholding below, payments of principal, any premium and interest by NorthStar or any of its agents (acting in its capacity as agent) to any non-United States holder will not be subject to United States Federal withholding tax, provided, in the case of interest, that (1) the non-United States holder is not, among other things, a controlled foreign corporation for United States tax purposes that is related to NorthStar (directly or indirectly) through stock ownership and (2) in general, either (A) the non-United States holder certifies to NorthStar or its agent under penalties of perjury that it is not a United States person and provides its name and address or (B) a securities clearing organization, bank or other financial institution that holds customers' securities in the ordinary course of its trade or business and holds the Series 2000 Note certifies to NorthStar or its agent under penalties of perjury that such statement has been received from the non-United States holder by it or by another financial institution and furnishes the payor with a copy.

It is possible that any payments of Carry-Over Amounts may be treated as contingent interest and that the Internal Revenue Service may accordingly take the position that such payments do not qualify for the exemption from withholding described above.

A non-United States holder that does not qualify for exemption from withholding as described above generally will be subject to United States Federal withholding tax at the rate of



30% (or lower applicable treaty rate) with respect to payments of interest on the Series 2000 Notes.

If a non-United States holder is engaged in a trade or business in the United States and interest on the Series 2000 Note is effectively connected with the conduct of such trade or business, the non-United States holder, although exempt from the withholding tax discussed above (provided that such holder timely furnishes the required certification to claim such exemption), may be subject to United States Federal income tax on such interest in the same manner as if it were a United States holder. Such a holder must provide the payor with a properly executed IRS Form 4224 (or successor form) to claim an exemption from United States Federal withholding tax. In addition, if the non-United States holder is a foreign corporation, it may be subject to a branch profits tax equal to 30% (or lower applicable treaty rate) of its effectively connected earnings and profits for the taxable year, subject to certain adjustments. For purposes of the branch profits tax, interest on a Series 2000 Note will be included in the earnings and profits of the holder if the interest is effectively connected with the conduct by the holder of a trade or business in the United States.

Any capital gain or market discount realized on the sale, exchange, retirement or other disposition of a Series 2000 Note by a non-United States holder will not be subject to United States Federal income or withholding taxes if (a) the gain is not effectively connected with a United States trade or business of the non-United States holder and (b) in the case of an individual, the non-United States holder is not present in the United States for 183 days or more in the taxable year of the sale, exchange, retirement or other disposition, and certain other conditions are met.

Series 2000 Notes held by an individual who is neither a citizen nor a resident of the United States for United States Federal tax purposes at the time of the individual's death will not be subject to United States Federal estate tax, provided that the income from the Series 2000 Notes was not or would not have been effectively connected with a United States trade or business of the individual and that the individual qualified for the exemption from United States Federal withholding tax (without regard to the certification requirements) described above.

Recently issued Treasury regulations, generally effective for payments made after December 31, 2000, provide alternative procedures to be followed by a non-United States holder in establishing eligibility for a withholding tax reduction or exemption.

Purchasers of Series 2000 Notes that are non-United States holders should consult their own tax advisors with respect to the possible applicability of United States withholding and other taxes upon income realized in respect of the Series 2000 Notes.

### **Information Reporting and Back-up Withholding**

For each calendar year in which the Series 2000 Notes are outstanding, NorthStar is required to provide the Internal Revenue Service with certain information, including the holder's name, address and taxpayer identification number (either the holder's Social Security number or its employer identification number, as the case may be), the aggregate amount of principal and interest paid to that holder during the calendar year and the amount of tax withheld, if any. This

obligation, however, does not apply with respect to certain United States holders, including corporations, tax-exempt organizations, qualified pension and profit sharing trusts and individual retirement accounts.

If a United States holder subject to the reporting requirements described above fails to supply its correct taxpayer identification number in the manner required by applicable law or under reports its tax liability, NorthStar, its agents or paying agents or a broker may be required to “backup” withhold a tax equal to 31% of each payment of interest, principal and any premium on the Series 2000 Notes. This backup withholding is not an additional tax and may be credited against the United States holder’s Federal income tax liability, provided that the holder furnishes the required information to the Internal Revenue Service.

Under current Treasury regulations, backup withholding and information reporting will not apply to payments of interest made by NorthStar or any of its agents (in their capacity as such) to a non-United States holder of a Series 2000 Note if the holder has provided the required certification that it is not a United States person as set forth in clause (2) in the second paragraph under “—Non-United States Holders” above, or has otherwise established an exemption (provided that neither NorthStar nor its agent has actual knowledge that the holder is a United States person or that the conditions of an exemption are not in fact satisfied).

In general, payments of the proceeds from the sale of a Series 2000 Note to or through a foreign office of a broker will not be subject to information reporting or backup withholding. However, information reporting (but not backup withholding) may apply to those payments if the broker is one of the following:

- a United States person;
- a controlled foreign corporation for United States tax purposes;
- a foreign person 50 percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment was effectively connected with a United States trade or business; or
- for payments made after December 31, 2000, a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a Series 2000 Note to or through the United States office of a broker is subject to information reporting and backup withholding unless the holder or beneficial owner certifies as to its taxpayer identification number or otherwise establishes an exemption from information reporting and backup withholding.

Recently issued Treasury regulations unify current certification procedures and forms relating to information reporting and backup withholding for payments made after December 31, 2000. Among other things, these regulations provide presumptions under which a non-United States holder is subject to information reporting and backup withholding unless NorthStar or its agent receives certification from the holder regarding non-United States status.

The Federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a holder's particular situation. Holders should consult their tax advisors with respect to the tax consequences to them of the purchase, ownership and disposition of the Series 2000 Notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in Federal or other tax laws.

### **STATE TAX CONSIDERATIONS**

In addition to the federal income tax consequences described in "Federal Income Tax Consequences," potential investors should consider the state income tax consequences of the acquisition, ownership and disposition of the Series 2000 Notes. State income tax law may differ substantially from the corresponding federal law, and this discussion does not purport to describe any aspect of the income tax laws of any state. Therefore, potential investors should consult their own tax advisors with respect to the various state tax consequences of an investment in the Series 2000 Notes.

### **ERISA CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA"), imposes certain fiduciary and prohibited transaction restrictions on employee pension and welfare benefit plans subject to ERISA ("ERISA Plans"). Section 4975 of the Internal Revenue Code imposes essentially the same prohibited transaction restrictions on tax-qualified retirement plans described in Section 401(a) of the Internal Revenue Code ("Qualified Retirement Plans") and on Individual Retirement Accounts ("IRAs") described in Section 408(b) of the Internal Revenue Code (collectively, "Tax-Favored Plans"). Certain employee benefit plans, such as governmental plans (as defined in Section 3(32) of ERISA), and, if no election has been made under Section 410(d) of the Internal Revenue Code, church plans (as defined in Section 3(33) of ERISA), are not subject to ERISA requirements. Accordingly, assets of such plans may be invested in Series 2000 Notes of a series without regard to the ERISA considerations described below, subject to the provisions of applicable federal and state law. Any such plan which is a Qualified Retirement Plan and exempt from taxation under Sections 401(a) and 501(a) of the Internal Revenue Code, however, is subject to the prohibited transaction rules set forth in the Internal Revenue Code.

In addition to the imposition of general fiduciary requirements, including those of investment prudence and diversification and the requirement that a plan's investment be made in accordance with the documents governing the plan, Section 406 of ERISA and Section 4975 of the Internal Revenue Code prohibit a broad range of transactions involving assets of ERISA Plans and Tax-Favored Plans and entities whose underlying assets include plan assets by reason of ERISA Plans or Tax-Favored Plans investing in such entities (collectively, "Benefit Plans") and persons who have certain specified relationships to the Benefit Plans ("Parties in Interest" or "Disqualified Persons"), unless a statutory or administrative exemption is available. Certain Parties in Interest (or Disqualified Persons) that participate in a prohibited transaction may be subject to a penalty (or an excise tax) imposed pursuant to Section 502(i) of ERISA (or Section 4975 of the Internal Revenue Code) unless a statutory or administrative exemption is available.

Certain transactions involving the purchase, holding or transfer of Series 2000 Notes might be deemed to constitute prohibited transactions under ERISA and the Internal Revenue Code if assets of NorthStar were deemed to be assets of a Benefit Plan. Under a regulation issued by the United States Department of Labor (the "Plan Assets Regulation"), the assets of NorthStar would be treated as plan assets of a Benefit Plan for the purposes of ERISA and the Internal Revenue Code only if the Benefit Plan acquires an "equity interest" in NorthStar and none of the exceptions contained in the Plan Assets Regulation is applicable. An equity interest is defined under the Plan Assets Regulation as an interest in an entity other than an instrument which is treated as indebtedness under applicable local law and which has no substantial equity features. Although there can be no assurances in this regard, it appears that the Series 2000 Notes should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

However, without regard to whether the Series 2000 Notes are treated as an equity interest for such purposes, the acquisition or holding of Series 2000 Notes by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if NorthStar or the Trustee, or any of their respective affiliates, is or becomes a party in interest or a disqualified person with respect to such Benefit Plan. In such case, certain exemptions from the prohibited transaction rules could be applicable depending on the type and circumstances of the plan fiduciary making the decision to acquire a Series 2000 Note. Included among these exemptions are: Prohibited Transaction Class Exemption ("PTCE") 96-23, regarding transactions effected by "in-house asset managers;" PTCE 90-1, regarding investments by insurance company pooled separate accounts; PTCE 95-60, regarding transactions effected by "insurance company general account;" PTCE 91-38, regarding investments by bank collective investment funds; and PTCE 84-14, regarding transactions effected by "qualified professional assets managers." Each purchaser and each transferee of a Series 2000 Note shall be deemed to represent and warrant that either (a) it is not a Benefit Plan or (b) its purchase and holding of the Series 2000 Notes will not result in a nonexempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a government plan, any substantially similar applicable law).

Any ERISA Plan fiduciary considering whether to purchase Series 2000 Notes of a series on behalf of an ERISA Plan should consult with its counsel regarding the applicability of the fiduciary responsibility and prohibited transaction provisions of ERISA and the Internal Revenue Code to such investment and the availability of any of the exemptions referred to above. Persons responsible for investing the assets of Tax-Favored Plans that are not ERISA Plans should seek similar counsel with respect to the prohibited transaction provisions of the Internal Revenue Code.

## **UNDERWRITING**

Subject to the terms and conditions set forth in a Note Purchase Agreement (the "Note Purchase Agreement"), between NorthStar and PaineWebber Incorporated (the "Underwriter"), NorthStar has agreed to sell to the Underwriter, and the Underwriter has agreed to purchase from NorthStar, the Series 2000 Notes. NorthStar has agreed to pay the Underwriter a fee equal to \$ 502,500 for underwriting the Series 2000 Notes.

In the Note Purchase Agreement, the Underwriter has agreed, subject to the terms and conditions set forth therein, to purchase all of the Series 2000 Notes offered hereby, if any Series 2000 Notes are purchased. NorthStar has been advised by the Underwriter that the Underwriter proposes initially to offer the Series 2000 Notes to the public at the public offering price with respect to each series set forth on the cover page of this Offering Memorandum. After the initial public offering, the public offering price may be changed.

The Note Purchase Agreement provides that NorthStar will indemnify the Underwriter against certain liabilities, including liabilities under applicable securities laws, or contribute to payments the Underwriter may be required to make in respect thereof.

The Underwriter may engage in over-allotment, stabilizing transactions, syndicate covering transactions and penalty bids in accordance with Regulation M under the Exchange Act. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specific maximum. Syndicate covering transactions involve purchases of the Series 2000 Notes in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the Underwriter to reclaim a selling concession from a syndicate member when the Series 2000 Notes originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. Such stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the Series 2000 Notes to be higher than it would otherwise be in the absence of such transactions.

## **LEGAL MATTERS**

Certain legal matters relating to NorthStar and federal income tax matters will be passed upon by Mark A. Lindgren, Vice President and General Counsel to NorthStar and Chapman and Cutler. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP.

## **RATINGS**

It is a condition to the issuance and sale of the Series 2000 Senior Notes that they be rated "Aaa" by Moody's and "AAA" by Fitch, Inc. It is a condition to the issuance of the Series 2000B Notes that they be rated "A2" by Moody's and "A" by Fitch, Inc. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by the assigning rating agency. The ratings of the Series 2000 Notes address the likelihood of the ultimate payment of principal of and interest on the Series 2000 Notes pursuant to their terms. The Rating Agencies do not evaluate, and the ratings on the Series 2000 Notes do not address, the likelihood of redemptions on the Series 2000 Notes or the likelihood of payment of any Carry-Over Amounts.

**Important Notice About Information Presented In  
This Offering Memorandum**

You should rely only on the information provided in this Offering Memorandum. NorthStar has not authorized anyone to provide you with different information. The Series 2000 Notes are not offered in any state where the offer is not permitted.

NorthStar has included cross-references in this Offering Memorandum to captions in this Offering Memorandum where you can find further related discussions. The following table of contents provides the pages on which the captions are located.

Some words and terms will be capitalized when used in this Offering Memorandum. You can find the definitions for these words and terms under the heading "Glossary of Certain Defined Terms" in this Offering Memorandum.

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**TOTAL**

**HIGHER**

**\$110,000,000**

**NorthStar Guarantee, Inc., Division B  
Student Loan Asset-Backed Notes**

Auction Rate Student Loan  
Asset-Backed Notes,  
Senior Series 2000 A-1  
Senior Series 2000 A-2

Auction Rate Student Loan  
Asset-Backed Notes,  
Subordinate Series 2000B

**OFFERING MEMORANDUM**

**PaineWebber Incorporated**

118955

MSRB

SECTION I - MATERIALS SUBMITTED

- A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):
- A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)
    - DATE RECEIVED FROM ISSUER: 11/09/2000
    - DATE SENT TO MSRB: 11/09/2000
  - AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)
    - DATE RECEIVED FROM ISSUER: \_\_\_\_\_
    - DATE SENT TO MSRB: \_\_\_\_\_
- B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE:
- C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original Form G-36(0S)):

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here:

A. NAME OF ISSUER Northstar Guarantee, Inc., Division B STATE: MN  
 DESCRIPTION DATED  
 OF ISSUE: Senior series 2000 A-1 DATE: 11/10/2000

B. NAME OF ISSUER Northstar Guarantee, Inc., Division B STATE: MN  
 DESCRIPTION DATED  
 OF ISSUE: Senior series 2000 A-2 DATE: 11/10/2000

C. NAME OF ISSUER Northstar Guarantee, Inc., Division B STATE: MN  
 DESCRIPTION DATED  
 OF ISSUE: Subordinate Series 2000B DATE: 11/10/2000

SECTION III - TRANSACTION INFORMATION

- LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 11/01/2040
- DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 11/08/2000
- ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 11/10/2000
- IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE. PLEASE CHECK HERE:   
 A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER Paine Webber SEC REG. NUMBER: 8-16267

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$110,000,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above: \$110,000,000)

- D. CHECK ALL THAT APPLY
- At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
  - At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
  - This offering is exempt from SEC Rule 15c2-12 under section (d)(1) of that rule. Section (d)(1) of SEC Rule 15c-12 stated that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment, and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
11/01/2040	66704JAA6	_____	_____	_____	_____
11/01/2040	66704JAB4	_____	_____	_____	_____
11/01/2040	66704JAC2	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
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_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9" CHECK HERE AND LIST THEM BELOW: \_\_\_\_\_  
(Please see instructions in Form G-36 Manual)

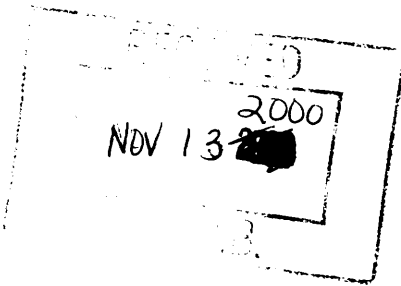
LIST ALL CUSIP-6 NUMBERS ASSIGNED: \_\_\_\_\_

State the reason why such securities have not been assigned a "CUSIP-9" \_\_\_\_\_

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: \_\_\_\_\_  
State the reason why such securities are ineligible for CUSIP number assignment: \_\_\_\_\_

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.



ON BEHALF OF THE MANAGING UNDERWRITER IDENTIFIED IN SECTION I

SIGNED: \_\_\_\_\_

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(PI)

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official statement

Alexandria, Virginia