



OFFERING MEMORANDUM

\$1,000,000,000

NorthStar Education Finance, Inc.
Student Loan Asset-Backed Notes
Series 2004-1



NorthStar Education Finance, Inc., a Delaware nonstock nonprofit corporation, is offering \$1,000,000,000 aggregate principal amount of its Student Loan Asset-Backed Notes, Series 2004-1 as senior LIBOR rate notes, senior auction rate notes and subordinate auction rate notes in the series and principal amounts set forth below:

Table with 7 columns: Series, Original Principal Amount, Interest Rate, Final Maturity Date, Price to Public, Underwriting Discount, Proceeds to Issuer. Rows include Series 2004-1A-1 through 2004-1B-1 and a Total row.

(1)Before deducting expenses estimated to be approximately \$753,000.
(2)Represents the expected quarterly distribution date for such month and year.

We will be issuing the series 2004-1 notes as additional notes pursuant to an existing indenture of trust with U.S. Bank National Association, as indenture trustee and as eligible lender trustee, and the series 2004-1 notes, together with all of our other notes issued pursuant to the indenture, will be secured by a pool of student loans originated under the Federal Family Education Loan Program, rights under certain agreements we have with others, a cash reserve fund and the other moneys and investments pledged to the indenture trustee.

The series 2004-1 notes are subject to principal payments and redemption as more fully described herein.

All of the senior series 2004-1A notes offered pursuant to this offering memorandum will be rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Fitch Ratings and Standard & Poor's Rating Services. The subordinate series 2004-1B-1 notes offered pursuant to this offering memorandum will be rated at least "A2" by Moody's Investors Service, Inc. and at least "A" by Fitch Ratings and Standard & Poor's Rating Services.

THE SERIES 2004-1 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 2004-1 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 2004-1 notes will represent our limited obligations, payable solely from the trust estate created under the indenture and described herein. The series 2004-1 notes are not insured or guaranteed by any government agency or instrumentality, by any of our affiliates, by any insurance company or by any other person or entity. The holders of the series 2004-1 notes will have recourse to the trust estate pursuant to the indenture, but will not have recourse to any of our other assets.

You should consider carefully the "Risk Factors" beginning on page 19 of this offering memorandum.

The series 2004-1 notes are offered by the underwriters named below, subject to prior sale, when, as and if issued and received by the underwriters. The underwriters reserve 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 2004-1 notes will be made in book-entry-only form through The Depository Trust Company on or about March 30, 2004.

Banc of America Securities LLC

Citigroup

Deutsche Bank Securities

The date of this Offering Memorandum is March 22, 2004.

The underwriters have provided the following sentence for inclusion in this offering memorandum. The underwriters have reviewed the information in this offering memorandum in accordance with, and as a part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the underwriters do not guarantee the accuracy or completeness of such information. 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 us or the underwriters 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 2004-1 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 our offering memorandum, and the information set forth herein has been obtained from us and other sources which we 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 our affairs.

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF NORTHSTAR EDUCATION FINANCE, INC. 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 2004-1 notes have not been registered with the State of Florida.

NOTICE TO RESIDENTS OF BELGIUM

THE SERIES 2004-1 NOTES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED IN OR FROM BELGIUM AS PART OF THEIR INITIAL DISTRIBUTION OR AT ANY TIME THEREAFTER, DIRECTLY OR INDIRECTLY, OTHER THAN TO PERSONS OR ENTITIES MENTIONED IN ARTICLE 3 OF THE ROYAL DECREE OF JANUARY 9, 1991 RELATING TO THE PUBLIC CHARACTERISTIC OF OPERATIONS CALLING FOR SAVINGS AND ON THE ASSIMILATION OF CERTAIN OPERATIONS TO A PUBLIC OFFER (BELGIAN OFFICIAL JOURNAL OF JANUARY 12, 1991). THEREFORE, THE SERIES 2004-1 NOTES ARE EXCLUSIVELY DESIGNED FOR CREDIT INSTITUTIONS, STOCK EXCHANGE COMPANIES, COLLECTIVE

INVESTMENT FUNDS, COMPANIES OR INSTITUTIONS, INSURANCE COMPANIES AND/OR PENSION FUNDS ACTING FOR THEIR OWN ACCOUNT ONLY.

NOTICE TO RESIDENTS OF FRANCE

THE SERIES 2004-1 NOTES ARE *ORGANISMES DE PLACEMENTS COLLECTIFS EN VALEURS MOBILIÈRES* ISSUED BY A RESIDENT OF A NON-EC STATE. ACCORDINGLY, PURSUANT TO THE PROVISIONS OF DECREE NO. 89-624 OF 6 SEPTEMBER 1989, THE SERIES 2004-1 NOTES MAY NOT BE OFFERED OR SOLD, DIRECTLY OR INDIRECTLY, IN FRANCE WITHOUT THE PRIOR APPROVAL OF THE FRENCH MINISTRY OF FINANCE.

EACH OF NORTHSTAR EDUCATION FINANCE, INC. AND THE UNDERWRITERS REPRESENTS AND AGREES THAT IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER OR SELL, DIRECTLY OR INDIRECTLY, ANY OF THE SERIES 2004-1 NOTES BY WAY OF A PUBLIC OFFERING IN FRANCE (AN *APPEL PUBLIC Á L'ÉPARGNE*, AS DEFINED IN ARTICLE 61 OF *ORDONNANCE* NO. 67-883 OF 28 SEPTEMBER 1967, AS AMENDED BY LAW NO. 98-546 OF 2 JULY 1998).

NOTICE TO RESIDENTS OF GERMANY

THE SERIES 2004-1 NOTES MAY NOT BE OFFERED TO THE PUBLIC IN GERMANY, EXCEPT AS IN ACCORDANCE WITH ALL APPLICABLE PROVISIONS OF GERMAN LAW RELATING TO ANY SUCH OFFERINGS. NO GERMAN SELLING PROSPECTUS HAS BEEN PREPARED OR PUBLISHED IN CONNECTION WITH THE ISSUE AND OFFERING OF THE SERIES 2004-1 NOTES.

NOTICE TO RESIDENTS OF THE REPUBLIC OF IRELAND

THIS OFFERING MEMORANDUM IS NOT A PROSPECTUS AND DOES NOT CONSTITUTE AN INVITATION TO THE PUBLIC TO PURCHASE OR SUBSCRIBE FOR ANY OF THE NOTES AND NEITHER IT NOR ANY FORM OF APPLICATION WILL BE ISSUED, CIRCULATED OR DISTRIBUTED TO THE PUBLIC.

THIS OFFERING MEMORANDUM AND THE INFORMATION CONTAINED HEREIN IS CONFIDENTIAL AND IS FOR THE USE SOLELY OF THE RECIPIENT TO WHOM IT IS PROVIDED. ACCORDINGLY, IT MAY NOT BE REPRODUCED IN WHOLE OR IN PART, NOR MAY ITS CONTENTS BE DISTRIBUTED IN WRITING OR ORALLY TO ANY THIRD PARTY AND IT MAY BE READ SOLELY BY THE RECIPIENT TO WHOM IT IS ADDRESSED AND SUCH RECIPIENT'S PROFESSIONAL ADVISORS.

NOTICE TO RESIDENTS OF THE NETHERLANDS

THE SERIES 2004-1 NOTES MAY NOT BE OFFERED, SOLD, TRANSFERRED OR DELIVERED, WHETHER DIRECTLY OR INDIRECTLY, TO ANY INDIVIDUAL OR LEGAL ENTITY IN THE NETHERLANDS OTHER THAN TO INDIVIDUALS WHO, OR LEGAL ENTITIES WHICH, IN THE COURSE OF THEIR OCCUPATION OR BUSINESS, DEAL OR INVEST IN SECURITIES (AS SET OUT IN SECTION 1 OF THE REGULATION OF 9 OCTOBER 1990 IN IMPLEMENTATION OF SECTION 14 OF THE ACT ON THE SUPERVISION OF INVESTMENT INSTITUTIONS).

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

PRIOR TO THE DATE SIX (6) MONTHS AFTER THE ISSUE OF THE SERIES 2004-1 NOTES, THE SERIES 2004-1 NOTES MAY NOT BE OFFERED OR SOLD TO PERSONS IN THE UNITED KINGDOM OTHER THAN TO PERSONS WHOSE ORDINARY ACTIVITIES INVOLVE THEM IN ACQUIRING, HOLDING, MANAGING OR DISPOSING OF INVESTMENTS (AS PRINCIPAL OR AGENT) FOR THE PURPOSES OF THEIR BUSINESS OR OTHERWISE IN CIRCUMSTANCES WHICH HAVE NOT RESULTED AND WILL NOT RESULT IN AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THE PUBLIC OFFERS OF SECURITIES REGULATIONS 1995, AND ANY INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (THE “FSMA”) RECEIVED IN CONNECTION WITH THE ISSUE OR SALE OF THE SERIES 2004-1 NOTES MAY ONLY BE COMMUNICATED OR CAUSED TO BE COMMUNICATED IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO NORTHSTAR.

THIS OFFERING MEMORANDUM AND THE SERIES 2004-1 NOTES (AND BENEFICIAL INTERESTS THEREIN) ARE NOT AVAILABLE TO OTHER CATEGORIES OF PERSON IN THE UNITED KINGDOM AND NO ONE FALLING OUTSIDE OF SUCH CATEGORIES IS ENTITLED TO RELY ON AND MUST NOT ACT ON ANY OF THE INFORMATION IN THIS OFFERING MEMORANDUM. THE TRANSMISSION OF THIS OFFERING MEMORANDUM TO ANY PERSON IN THE UNITED KINGDOM OTHER THAN THE CATEGORIES STATED ABOVE IS UNAUTHORIZED AND MAY CONTRAVENE FSMA.

Special Note Regarding Forward Looking Statements

Statements in this offering memorandum, including those concerning expectations as to our ability to purchase eligible student loans, to structure and to issue competitive securities, our ability to pay our notes, including the series 2004-1 notes, and certain other information presented in this offering memorandum, constitute “forward looking statements,” which represent our expectations and beliefs about future events. Actual results may vary materially from such expectations. For a discussion of the factors which could cause actual results to differ from expectations, see the caption “Risk Factors” herein.

Summary of Terms

The following summary is a very general overview of the terms of the series 2004-1 notes and does not contain all of the information that you need to consider in making your investment decision.

Before deciding to purchase the series 2004-1 notes, you should consider the more detailed information appearing elsewhere in this offering memorandum.

This offering memorandum contains forward-looking statements that involve risks and uncertainties. See the caption “Special Note Regarding Forward Looking Statements” in this offering memorandum.

General

The series 2004-1 notes will be issued pursuant to an indenture of trust and will have the rights described herein. We will use the proceeds from the sale of the series 2004-1 notes to purchase portfolios of student loans, to make deposits to the Capitalized Interest Fund, the Collection Fund and the Reserve Fund and to pay the costs of issuing the series 2004-1 notes.

We have previously issued other series of notes and have used the proceeds we received to purchase student loans. All of student loans presently pledged under the indenture and those we will purchase with the proceeds of the series 2004-1 notes and other amounts pledged under the indenture have been or will be originated under the Federal Family Education Loan Program and are or will be pledged to the indenture trustee to secure repayment of all the notes issued under the indenture. The composition of this common pool of collateral will change over time as student loans are repaid and new student loans are added.

The sole source of funds for payment of all of the notes issued under the indenture are the student loans pledged under the indenture, including any payments received thereon, and the moneys in the funds and

accounts pledged under the indenture, including investment earnings thereon. To the extent the value of the student loans and other assets in the trust estate exceeds certain percentages of the outstanding principal balance of each of the senior notes and the subordinate notes issued under the indenture and a minimum of \$100,000, the indenture trustee may release funds to us. See the caption “Source of Payment and Security for the Notes—Flow of Funds” herein.

Principal Parties and Dates

Issuer

- NorthStar Education Finance, Inc.

Servicer

- Great Lakes Educational Loan Services, Inc.

Eligible Lender Trustee and Indenture Trustee

- U.S. Bank National Association

Auction Agent for the Auction Rate Notes

- Deutsche Bank Trust Company Americas

Broker-Dealers for the Auction Rate Notes

- Banc of America Securities LLC with respect to the series 2004-1A-5 notes, the series 2004-1A-6 notes and the series 2004-1B-1 notes.
- Citigroup Global Markets Inc. with respect to the series 2004-1A-7 notes.
- Deutsche Bank Securities Inc. with respect to the series 2004-1A-8 notes.

Distribution Dates

LIBOR Rate Notes. Distributions will be made on the LIBOR rate notes on the 28th day of each January, April, July and October, commencing July 28, 2004. We sometimes refer to these distribution dates as “quarterly distribution dates.” If any quarterly distribution date is not a business day, the quarterly distribution date will be the next business day.

Auction Rate Notes. Distributions will be made to each series of the auction rate notes on the business day following the end of each auction period for that series of the auction rate notes; however, if an auction period for a series of the auction rate notes is six months or longer, then the interest payment dates therefor shall be as determined by us with the consent of the applicable broker-dealer and the first business day immediately following the end of such interest period. We sometimes refer to a distribution date for a series of the auction rate notes as an “auction rate distribution date.” The initial auction period for each series of the auction rate notes will begin on the closing date and end on the initial auction date for that series of the auction rate notes.

Collection Periods

The collection periods will be each calendar month. The monthly calculation date for each collection period shall be the 25th day of the succeeding calendar month (or, in the event such 25th day is not a business day, the next succeeding business day).

Interest Accrual Periods

LIBOR Rate Notes. The initial interest accrual period for the LIBOR rate notes begins on the closing date and ends on July 27, 2004. For all other quarterly distribution dates, the interest accrual period will begin on the prior quarterly distribution date and end on the day before such quarterly distribution date.

Auction Rate Notes. The interest accrual period for each series of the auction rate notes is the period from the previous auction rate distribution date through the date preceding the auction rate distribution date for that series. The first interest accrual period, however, will begin on the closing date and end on the initial auction date. We sometimes refer to period between auctions for a series of the auction rate notes as an “auction period.”

Statistical Calculation Date

The information presented in this offering memorandum relating to the pool of student loans which will constitute the trust estate on the closing date, including the student loans we will acquire with the proceeds of the series 2004-1 notes, is as of January 31, 2004, which we refer to as the “statistical calculation date.” We believe that the information set forth in this offering memorandum with respect to those student loans as of the statistical calculation date is representative of the characteristics of the student loans as they will exist on the

closing date, although certain characteristics of the student loans may vary.

Cut-off Date

The cut-off date for the pool of student loans we will acquire on the closing date will be February 29, 2004.

Closing Date

The closing date for this offering is expected to be on or about March 30, 2004.

Collateralization Ratios

On the closing date, after we issue the series 2004-1 notes, acquire the student loans that we expect to acquire on the closing date and pay the costs of issuing the series 2004-1 notes:

- the senior asset percentage will equal approximately 103.5%; and
- the subordinate asset percentage will equal approximately 98.3%

Principal collections and excess interest received on the student loans will be used to purchase additional student loans or to redeem notes and no funds will be released to us until:

- the senior asset percentage is not less than 105.00%;
- the subordinate asset percentage is not less than 100.75%; and
- the aggregate value of all assets pledged under the indenture, less the principal amount of all notes outstanding, exceeds \$100,000.

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

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

Description of the Series 2004-1 Notes

General

NorthStar Education Finance, Inc. is offering the following Student Loan Asset-Backed Notes, Series 2004-1 as LIBOR rate notes:

- Series 2004-1A-1 notes in the aggregate principal amount of \$100,000,000;
- Series 2004-1A-2 notes in the aggregate principal amount of \$225,000,000;
- Series 2004-1A-3 notes in the aggregate principal amount of \$200,000,000; and
- Series 2004-1A-4 notes in the aggregate principal amount of \$225,000,000.

NorthStar Education Finance, Inc. is offering the following Student Loan Asset-Backed Notes, Series 2004-1 as auction rate notes:

- Series 2004-1A-5 notes in the aggregate principal amount of \$66,000,000;
- Series 2004-1A-6 notes in the aggregate principal amount of \$66,000,000;
- Series 2004-1A-7 notes in the aggregate principal amount of \$44,000,000;
- Series 2004-1A-8 notes in the aggregate principal amount of \$44,000,000; and
- Series 2004-1B-1 notes in the aggregate principal amount of \$30,000,000.

The series 2004-1 notes will be issued as additional notes pursuant to an existing indenture of trust. The indenture provides for the issuance of senior notes, subordinate notes and junior subordinate notes. The rights of the holders of subordinate notes to receive payments and to direct remedies upon default will be subordinated to such rights of the holders of the senior notes and any other senior beneficiaries, and the rights of the holders of junior subordinate notes to receive payments and to direct remedies upon default will be subordinated to such rights of the holders of the senior and subordinate notes and any other senior and subordinate beneficiaries, each to the extent described under the caption “Source of Payment and Security for the Notes—Priorities” herein. We have previously issued \$493,500,000 of senior notes and \$46,500,000 of subordinate notes pursuant to the indenture. After we issue the series 2004-1 notes, there will be \$1,463,500,000 of senior notes and \$76,500,000 of subordinate notes outstanding under the indenture. We have not issued any junior subordinate notes

pursuant to the indenture. We may issue additional notes and other obligations in the future pursuant to the indenture which have the same right to payment from the trust estate as any then existing senior notes, subordinate notes or junior subordinate notes.

The series 2004-1A notes will be senior notes and the series 2004-1B-1 notes will be subordinate notes under the indenture. The series 2004-1A-1 notes, the series 2004-1A-2 notes, the series 2004-1A-3 notes and the series 2004-1A-4 notes bear interest based on three-month LIBOR, and we sometimes refer to them as the “LIBOR rate notes.” The series 2004-1A-5 notes, the series 2004-1A-6 notes, the series 2004-1A-7 notes, the series 2004-1A-8 notes and the series 2004-1B-1 notes will bear interest based on auction rates, and we sometimes refer to them as the “auction rate notes.” The LIBOR rate notes will be available for purchase in multiples of \$1,000. The auction rate notes will be available for purchase in multiples of \$50,000.

Interest and principal on the series 2004-1 notes will be payable to the record owners of the series 2004-1 notes as of the close of business on the regular record date, which is the business day immediately preceding the quarterly distribution date for the LIBOR rate notes and the applicable number of business days prior to the auction rate distribution date for the auction rate notes.

Interest Rates and Payments

LIBOR Rate Notes. The LIBOR rate notes will bear interest at the following annual rates:

- the series 2004-1A-1 notes will bear interest at an annual rate equal to three-month LIBOR, except for the

initial interest accrual period, plus 0.05%;

- the series 2004-1A-2 notes will bear interest at an annual rate equal to three-month LIBOR, except for the initial interest accrual period, plus 0.12%;
- the series 2004-1A-3 notes will bear interest at an annual rate equal to three-month LIBOR, except for the initial interest accrual period, plus 0.17%; and.
- the series 2004-1A-4 notes will bear interest at an annual rate equal to three-month LIBOR, except for the initial interest accrual period, plus 0.19%.

The indenture trustee will determine the rate of interest on the LIBOR rate notes on the second business day prior to the start of the applicable interest accrual period. Interest on the LIBOR rate notes will be calculated on the basis of the actual number of days elapsed during the interest accrual period divided by 360.

For the initial interest accrual period, the LIBOR rate will be four-month LIBOR, as determined by the indenture trustee on the second business day prior to the closing date.

Interest accrued on the outstanding principal balance of the LIBOR rate notes during each interest accrual period will be paid on the related quarterly distribution date.

Auction Rate Notes. The interest rates for each series of the auction rate notes are determined at auctions. However, the interest rate on each series of the auction rate notes for its initial interest accrual period will be determined by the

underwriters prior to the closing date. The initial auction date and the initial interest rate adjustment date for each series of the auction rate notes are set forth below:

<u>Series</u>	<u>Initial Auction Date</u>	<u>Initial Interest Rate Adjustment Date</u>
A-5	April 27, 2004	April 28, 2004
A-6	May 18, 2004	May 19, 2004
A-7	April 28, 2004	April 29, 2004
A-8	May 11, 2004	May 12, 2004
B-1	May 4, 2004	May 5, 2004

For each auction period, the interest rate for the series of the auction rate notes will be the least of:

- the rate determined pursuant to the auction procedures described under the caption “Auction of the Auction Rate Notes” herein;
- the maximum auction rate, which is based on the 91-day United States Treasury bill rate for a one-year period plus a margin ranging from 1.20% (if the series of the auction rate notes is rated AAA/Aaa) to 1.75% (if the series of the auction rate notes is rated below A-/A3);
- the sum of (a) one-month LIBOR and (b) 1.00%;
- the maximum interest rate, which is equal to the lesser of:
 - 18%; and
 - the highest rate permitted by law; and
- if (a) the auction rate for a series of the auction rate notes exceeded the sum of the 91-day United States Treasury bill rate plus 1.0% for the preceding six consecutive auction dates or (b) one-month LIBOR exceeded the 90-day commercial paper rate by more

than 0.30% on each of the preceding six consecutive auction dates, the net loan rate described below.

The net loan rate is, with respect to any auction period, (a) the rate of interest per annum (rounded to the next highest 0.01%) equal to the adjusted student loan portfolio rate of return for the calendar month immediately preceding such auction period, as we determine on the last day of such calendar month, less (b) the program expense percentage with respect to such auction period. The adjusted student loan portfolio rate of return is, for any calendar month, the amount determined by dividing (i) the product of 12 times the sum of the following amounts accrued during such calendar month (whether or not actually received or paid): (A) interest (including interest subsidy payments) and special allowance payments with respect to the financed student loans plus (B) any swap counterparty payments minus (C) any amount required to be paid to the Department of Education or to be repaid to guarantee agencies with respect to the financed student loans that do not qualify for guarantees, minus (D) the aggregate amount of default claims filed during the month with respect to financed student loans which (1) exceed the amount the guarantee agency is required to pay under the applicable guarantee agreement or (2) are payable only by a guarantee agency that is in default of its guarantee obligations with respect to financed student loans and has not provided collateral security sufficient to pay such claims, minus (E) any reduction in the interest as a result of borrower incentive programs, other than the T.H.E. Bonus program, minus (F) any swap agreement payments we are required to make; by (ii) the average daily outstanding principal balance of the financed student loans during such calendar month. For this purpose, the special allowance payment shall be

computed based upon the average of the bond equivalent rates of 91-day United States Treasury bills auctioned, or the commercial paper rates published, during that portion of the then current calendar quarter.

The net loan rate period will end on the first day of an auction period which immediately follows three consecutive auction dates for such series of the auction rate notes where (a) if the net loan trigger rate occurred due to the auction rate exceeding 91-day United States Treasury bill rate in effect as of each such auction date plus 1.0%, the auction rate established on each such auction date for such series was equal to or less than a per annum rate equal to the sum of (i) the 91-day United States Treasury bill rate in effect as of each such auction date plus (ii) 1.0% or (b) if the net loan trigger rate occurred due to one-month LIBOR exceeding the 90-day commercial paper rate by more than 0.30%, one-month LIBOR did not exceed the 90-day commercial paper rate by more than 0.30%.

We sometimes refer to the interest rate on an auction rate note as its “auction rate.”

Interest on the auction rate notes will accrue daily and will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days.

After the initial auction period, the period between auctions for the auction rate notes will generally be 28 days, subject to adjustment if the auction period would begin or end on a non-business day. The length of the auction period, the auction date or the nature of the interest rate for any series of the auction rate notes may change as described under the caption “Auction of the Auction Rate Notes—Changes in Auction Terms” herein.

If, on the first day of any auction period, a payment default on the auction rate notes has occurred and is continuing, the rate for the interest accrual period will be the non-payment rate, which generally is one-month LIBOR plus 1.50%.

If in any auction all the auction rate notes of a series that is subject to the auction are subject to hold orders, the interest rate for the accrual period will equal the all hold rate, which is the LIBOR rate for a period comparable to the auction period less 0.25%.

Interest accrued on the outstanding principal balance of a series of the auction rate notes during the preceding auction period will be paid on the related auction rate distribution date.

Final Maturities

- The series 2004-1A-1 notes will be paid in full by the January 2011 quarterly distribution date;
- the series 2004-1A-2 notes will be paid in full by the January 2014 quarterly distribution date;
- the series 2004-1A-3 notes will be paid in full by the April 2017 quarterly distribution date;
- the series 2004-1A-4 notes will be paid in full by the April 2019 quarterly distribution date;
- the series 2004-1A-5 notes will be paid in full by December 1, 2044;
- the series 2004-1A-6 notes will be paid in full by December 1, 2044;
- the series 2004-1A-7 notes will be paid in full by December 1, 2044;

- the series 2004-1A-8 notes will be paid in full by December 1, 2044; and
- the series 2004-1B-1 notes will be paid in full by December 1, 2044.

Principal Distributions and Redemptions

Although no installments of principal are due on the series 2004-1 notes prior to their stated maturities, on each related distribution date principal distributions and redemptions will be made on the notes in an amount equal to the funds available to pay principal on the series 2004-1 notes as described under the caption “Source of Payment and Security for the Notes—Flow of Funds” herein.

We anticipate making principal distributions on the LIBOR rate notes on each quarterly distribution date set forth in the tables below, in the amounts necessary to reduce the aggregate outstanding principal amount of each series of the LIBOR rate notes to the respective targeted balances set forth in the tables below for such quarterly distribution date:

Series 2004-1A-1 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
July 2006	\$90,000,000
October 2006	73,000,000
January 2007	55,000,000
April 2007	37,000,000
July 2007	19,000,000
October 2007	-0-

Series 2004-1A-2 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
January 2008	\$206,000,000
April 2008	186,000,000
July 2008	166,000,000
October 2008	146,000,000
January 2009	124,000,000
April 2009	99,000,000
July 2009	74,000,000
October 2009	49,000,000
January 2010	24,000,000
April 2010	-0-

Series 2004-1A-3 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
April 2010	\$197,000,000
July 2010	168,000,000
October 2010	139,000,000
January 2011	109,000,000
April 2011	79,000,000
July 2011	49,000,000
October 2011	19,000,000
January 2012	-0-

Series 2004-1A-4 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
January 2012	\$217,000,000
April 2012	192,000,000
July 2012	167,000,000
October 2012	142,000,000
January 2013	117,000,000
April 2013	92,000,000
July 2013	67,000,000
October 2013	42,000,000
January 2014	20,000,000
April 2014	-0-

Those principal distributions will be made only to the extent there are sufficient available funds for that purpose as described under the caption “Flow of Funds” below. If available funds are not sufficient to meet the amortization schedules set forth above for a series of the LIBOR rate notes on any quarterly distribution date, the scheduled principal distribution for such series of the LIBOR rate notes for the next quarterly distribution date will be increased by the amount of the shortfall. If scheduled principal distributions are due for more than one series of the LIBOR rate notes, the available funds will be allocated, *first*, to the series 2004-1A-1 notes, *second*, to the series 2004-1A-2 notes, *third*, to the series 2004-1A-3 notes and, *fourth*, to the series 2004-1A-4 notes.

To provide for such principal distributions, so long as any LIBOR rate notes are outstanding, on each monthly calculation date the indenture trustee will transfer to the Retirement Account pursuant to the priorities described under the caption “Flow of Funds” below (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) an amount determined by the formula described under the caption “Sources and Security for Payment of the Notes—Debt Service Fund—*Retirement Account*” herein.

We are permitted to issue additional notes with principal distributions which are payable prior to, or concurrently with, the principal distributions on the LIBOR rate notes, and additional notes with stated maturities (or mandatory sinking fund payments) which are payable prior to, or concurrently with, the principal distributions on the LIBOR rate notes, if we reasonably determine, on the date of issuance of such additional notes, that the issuance of such additional notes will not adversely affect the

sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth above. Also, we have covenanted not to sell any student loans within the trust estate unless we reasonably determine, on the date of such sale, that the sale of such student loans will not adversely affect the sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth above.

Principal distributions on each series of LIBOR rate notes will be made on a pro rata basis to the holders thereof, and after each principal payment each LIBOR rate note will be outstanding in a fractional amount of its original principal amount. See the caption “Description of the Series 2004-1 Notes—Outstanding principal balance of the LIBOR Rate Notes” herein.

Redemptions of the Series 2004-1 Notes

Optional Redemption of the LIBOR Rate Notes

The series 2004-1A-1 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after October 29, 2007 (the date on which the targeted balance on the series 2004-1A-1 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date. The series 2004-1A-2 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after April 28, 2010 (the date on which the targeted balance on the series 2004-1A-2 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date. The

series 2004-1A-3 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after January 30, 2012 (the date on which the targeted balance on the series 2004-1A-3 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date. The series 2004-1A-4 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after April 28, 2014 (the date on which the targeted balance on the series 2004-1A-4 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date.

Optional Redemption of the Auction Rate Notes

At our option, auction rate notes of any series may be redeemed on any auction rate distribution date for such series, in whole or in part, at a redemption price of 100% of the principal amount of such auction rate notes to be redeemed, plus accrued interest thereon to the redemption date. To the extent auction rate notes are optionally redeemed, any carry-over amounts accrued on the auction rate notes being optionally redeemed will be extinguished on such optional redemption date.

Principal Distributions on the LIBOR Rate Notes

Principal distributions will be made on the LIBOR rate notes as described under the caption “*Principal Distributions and Redemptions*” above.

Mandatory Redemption of the Auction Rate Notes

The auction rate notes of any series are subject to mandatory redemption on any auction rate distribution date from revenues deposited to the Collection Fund to the extent we direct which are in excess of amounts necessary to pay or provide for the payment of various program operating expenses and related costs, 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. The redemption price will be 100% of the principal amount of such auction rate notes to be prepaid, plus accrued interest thereon to the redemption date. To the extent auction rate notes are mandatorily redeemed, any carry-over amounts accrued on the auction rate notes being mandatorily redeemed will be extinguished on such mandatory redemption date.

The indenture provides that future series of notes or portions thereof may be designated for redemption or principal payments before such principal repayments are applied to the redemption of the auction rate notes.

Selection of Auction Rate Notes for Redemption

If less than all outstanding auction rate notes are to be redeemed, we will determine the particular series to be redeemed. If less than all outstanding auction rate notes of a given series are to be redeemed, the particular auction rate notes to be redeemed will be determined by lot. See the caption “Description of the Series 2004-1 Notes—Selection of Auction Rate Notes for Redemption” herein.

Limitation on Redemption of Subordinate Notes

No subordinate notes, including the series 2004-1B-1 notes, may be redeemed so long as there are any senior notes outstanding under the indenture unless we receive confirmation from each rating agency that such redemption will not cause the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes; however, we are required to pay the subordinate notes at their stated maturities.

Description of the Issuer

General

NorthStar Education Finance, Inc., a Delaware nonstock nonprofit corporation (“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. Our principal place of business is located at 444 Cedar Street, Suite 550, St. Paul, Minnesota 55101-2133, and our phone number is (888) 843-0004. We have a web site on the world wide web at www.northstar.org. Information found on the web site is not part of this offering memorandum.

We will use the proceeds from the sale of the series 2004-1 notes to purchase student loans originated under the Federal Family Education Loan Program (“FFELP”), to make deposits to the Capitalized Interest Fund, the Collection Fund and the Reserve Fund and to pay the costs of issuing the series 2004-1 notes.

The only sources of funds for payment of our notes issued pursuant to the indenture, including the series 2004-1 notes, is the trust estate established pursuant to the indenture

and described under the caption “The Trust Estate” below.

The Trust Estate

The trust estate established pursuant to the indenture includes:

- the student loans pledged under the indenture;
- collections and other payments received on account of the student loans;
- our rights under certain agreements, including any servicing agreement, any guarantee agreement, any eligible lender trust agreement and any repurchase agreement;
- money and investments held in funds and accounts created under the indenture, including the Acquisition Fund, the Administration Fund, the Capitalized Interest Fund, the Collection Fund, the Debt Service Fund and the Reserve Fund; and
- our rights under any swap agreement and any swap guarantee agreement.

The Acquisition Fund

Approximately \$948,690,000 of the proceeds from the sale of the series 2004-1 notes will be deposited into the Acquisition Fund and be used to purchase, through the eligible lender trustee, student loans on the closing date. We will use any other funds deposited into the Acquisition Fund to purchase, through the eligible lender trustee, student loans during the revolving period.

The Administration Fund

Approximately \$753,000 of the proceeds from the sale of the series 2004-1 notes will be deposited into the Administration Fund

and used to pay the costs of issuing the series 2004-1 notes.

Capitalized Interest Fund

We will deposit approximately \$40,000,000 of the proceeds from the sale of the series 2004-1 notes into the Capitalized Interest Fund on the closing date. Amounts on deposit in the Capitalized Interest Fund will be transferred to the Collection Fund to the extent amounts on deposit in the Collection Fund are insufficient to pay interest on the notes and certain other payments required to be made from amounts on deposit in the Collection Fund as further described under the caption “Summary of the Indenture—Funds and Accounts—*Capitalized Interest Fund*” herein. We are not required to replenish amounts paid out of the Capitalized Interest Account and any moneys remaining in the Capitalized Interest Fund in excess of the required capitalized interest fund amount will be transferred to the Collection Fund.

The Collection Fund

Approximately \$1,500,000 of the proceeds from the sale of series 2004-1 notes will be deposited into the Collection Fund on the closing date. The indenture trustee will credit to the Collection Fund: (a) 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); (b) unless otherwise provided in a supplemental indenture, proceeds of the sale of any financed student loans held in the

Acquisition Fund; (c) any amounts transferred to the Collection Fund from the other funds established pursuant to the indenture; (d) all amounts received as earnings on income from investment securities in funds established pursuant to the indenture; (e) all amounts received as payments from us or on our behalf with respect to the T.H.E. Bonus Deposit; (f) all counterparty swap payments; and (g) any amounts received by the indenture trustee pursuant to the indemnification provisions of any joint sharing agreement. Money on deposit in the Collection Fund will be used to make the payments, allocations and transfers described under the caption “Flow of Funds” below.

The Reserve Fund

We will make a deposit to the Reserve Fund from the proceeds of the sale of the series 2004-1 notes in the amount of \$6,150,000. We have already deposited \$5,400,000 into the Reserve Fund in connection with notes previously issued pursuant to the indenture. Amounts in the Reserve Fund will be supplemented monthly, if necessary, as described under the caption “Flow of Funds” below to increase the amount therein to the required balance, and otherwise upon the issuance of any future additional notes to the extent provided in a supplemental indenture. The required balance in the Reserve Fund is equal to the greater of:

- 0.75% of the outstanding principal amount of the notes;
- or \$1,000,000,

or such lesser amount if we receive written confirmation from each rating agency that such lesser amount will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding

notes. Thus, the amount in the Reserve Fund may be reduced in connection with the reduction of the outstanding principal amount of notes or upon our receipt of written confirmation from each rating agency that such reduction will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes. See the caption “Description of the Indenture—Funds and Accounts—*Reserve Fund*” herein. Funds on deposit in the Reserve Fund in excess of the required balance will be transferred to the Collection Fund.

Characteristics of the Student Loan Portfolio

The student loans which will be included in the trust estate on the closing date, including those we will acquire with the proceeds of the sale of the series 2004-1 notes, are student loans originated under the Federal Family Education Loan Program. The information in this offering memorandum relating to those student loans is presented as of the statistical calculation date, which is January 31, 2004. As of that date, the student loans had an aggregate outstanding principal balance of approximately \$1,425,520,807 plus accrued interest of approximately \$35,196,805. In addition, the weighted average annual borrower interest rate of the student loans was approximately 3.20% and their weighted average remaining term to scheduled maturity was approximately 222 months. The student loans which will be included in the trust estate on the closing date, including those we will acquire on the closing date with the proceeds of the series 2004-1 notes, are described more fully under the caption “Characteristics of the Student Loans” herein.

Flow of Funds

On each monthly calculation date, the indenture trustee will transfer or allocate the moneys received during the preceding month in the Collection Fund as follows:

- *first*, to make any payments required under a joint sharing agreement;
- *second*, to make any payments due and payable by us 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 Interest Account, the amount necessary to provide for the payment of interest accruing or coming due during the next month on any senior notes at the time outstanding and the payment of any other senior obligations under the indenture (excluding termination payments due under senior swap agreements);
- *fifth*, to the Principal Account, the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption) on the senior notes or for the reimbursement of senior credit facility providers for the payment of principal on the senior notes, an amount equal to one-twelfth of such principal coming due within the next 12 months on any senior notes at the time outstanding (there being no such deposits required with respect to the series 2004-1A notes until February 25, 2010);
- *sixth*, to the Interest Account, the amount necessary to provide for the payment of interest accruing or coming due during the next month on any subordinate notes at the time outstanding and the payment of any other subordinate obligations under the indenture (excluding termination payments due under subordinate swap agreements);
- *seventh*, to the Principal Account, the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption) on the subordinate notes or for the reimbursement of senior credit facility providers for the payment of principal on the senior notes, an amount equal to one-twelfth of such principal coming due within the next 12 months on any subordinate notes at the time outstanding (there being no such deposits required with respect to the series 2004-1B-1 notes until January 25, 2044);
- *eighth*, to the Reserve Fund, the amount necessary to reach its required balance;
- *ninth*, to the Interest Account, the amount necessary to provide for the payment of interest on junior subordinate notes;
- *tenth*, to the Principal Account, 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 one-twelfth of such principal coming due within the next 12 months on any junior subordinate notes at the time outstanding;

- *eleventh*, to the Retirement Account for the distribution of principal with respect to notes which by their terms are subject to scheduled principal distributions, an amount sufficient to make any monthly deposit required for the next scheduled principal distribution (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 such notes are issued); provided, however, if we failed to make in full any of the scheduled principal payments on the notes on the prior Quarterly Distribution Date, the amount transferred pursuant to this paragraph *eleventh* shall include an amount equal to the amount of the scheduled principal payment we failed to pay, unless such amount has been previously transferred pursuant to this paragraph *eleventh*;
- *twelfth*, to pay an amount equal to the T.H.E. Bonus Deposit through July 1, 2006 (unless extended or amended as to timing or amount as provided in the indenture), unless there exists unpaid carry-over amounts;
- *thirteenth*, to the Retirement Account for the distribution of principal with respect to notes which by their terms are subject to scheduled principal distributions, an amount sufficient to make the next scheduled principal distribution on such notes (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 such notes are issued), less any amounts previously transferred pursuant to paragraph *eleventh* above;
- *fourteenth*, until the senior asset percentage has been satisfied, all remaining amounts shall be transferred, as we shall designate, either (a) 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 such notes are issued) or (b) during the revolving period, to the Acquisition Fund to acquire or originate additional student loans;
- *fifteenth*, to the Interest Account, the amount necessary for the payment of carry-over amounts and interest thereon with respect to senior notes;
- *sixteenth*, to the Interest Account, except as described under the caption “Suspension of Payments on Subordinate Obligations” below, the amount necessary for the payment of carry-over amounts and interest thereon with respect to subordinate notes;
- *seventeenth*, to the Interest Account, except as described under the caption “Suspension of Payments on Subordinate Obligations” below, the amount necessary for the payment of carry-over amounts and interest thereon with respect to junior subordinate notes;
- *eighteenth*, to the Interest Account, the amount necessary for the payment of termination payments due under senior swap agreements;

- *nineteenth*, to the Interest Account, the amount necessary for payment of termination payments due under subordinate swap agreements;
- *twentieth*, during the revolving period and only at our direction, to the Acquisition Fund to acquire or originate additional student loans;
- *twenty-first*, only at our direction, 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 such notes are issued); and
- *twenty-second*, to us if after taking into account any such release (a) the senior asset percentage will not be less than 105.00%, and the subordinate asset percentage will not be less than 100.75% or such greater percentages or amounts as may be required by the rating agencies and (b) the aggregate value of all assets pledged under the indenture, less the principal amount of all notes outstanding will exceed \$100,000 after such release.

Amounts remaining in the Collection Fund after the transfers or allocations described above shall remain in the Collection Fund and will be available for transfer or allocation on the next succeeding monthly calculation date.

We receive a monthly administrative allowance equal to one-twelfth of 0.50% of

the ending principal balance of the financed student loans, plus accrued interest, during the preceding month, which is used in part to pay the servicing fees to our servicers, and a monthly marketing and school services expense allowance equal to one-twelfth of 0.10% of the ending balance of the financed student loans, plus accrued interest, during the preceding month.

Retirement Account. All notes that are to be redeemed, or with respect to which principal distributions are to be made, other than at their stated maturity, will be redeemed or paid with moneys deposited to the Retirement Account.

So long as any LIBOR rate notes are outstanding, on each monthly calculation date the indenture trustee will transfer to the Retirement Account (a) pursuant to priority *eleventh* above (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) an amount determined by the formula described under the caption “Sources and Security for Payment of the Notes—Debt Service Fund—*Retirement Account*” herein and (b) pursuant to priority *thirteenth* above (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) the remaining amount necessary to make the next scheduled principal distribution.

Suspension of Payment on Subordinate Obligations

As long as any senior notes or any subordinate notes remain outstanding under the indenture, the payments described under the caption “Flow of Funds” above will be modified if, after giving effect to the payments on any payment date, either:

- the senior asset percentage described herein 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 described herein 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 and the notes have been accelerated under the indenture (in which event amounts will be applied as described under the caption “Description of the Indenture—Remedies” herein).

Any such deferral of payments on the 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 2004-1B-1 notes and any other obligations subordinate to the 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 under the caption “*Suspension of Payments on Subordinate Obligations*” above 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; however, no subordinate notes may be redeemed so long as there are any senior notes outstanding under the indenture unless we receive confirmation from each rating agency that such redemption will not cause

the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes; however, we are required to pay the subordinate notes at their stated maturities. See the caption “Description of the Series 2004-1 Notes—Redemption of the Series 2004-1 Notes—*Limitation on Redemption of Subordinate Notes*” herein. See also the captions “Source of Payment and Security for the Notes—Priorities” and “Description of the Indenture—Funds and Accounts” herein for a further description of the payment priorities on the notes.

Revolving Period

Prior to the termination of the revolving period, certain revenues that otherwise would be required to be used to redeem or make principal distributions with respect to the notes may instead, at our direction, be transferred to the Acquisition Fund and used to acquire or originate additional eligible student loans. The revolving period will terminate on July 1, 2006 or such other date as we may determine, upon confirmation from the rating agencies that the ratings of the notes will not be reduced or withdrawn as a result of such change.

Borrower Benefit Programs

We reduce the cost of financing education costs for our 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 program. The T.H.E. Bonus program utilizes certain amounts released from the indenture to make payments on behalf of borrowers under the T.H.E. Loan Program that are in active repayment and are not in default. We are 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 by the borrower.

Servicing

Great Lakes Educational Loan Services, Inc. is currently the servicer of our student loans pledged under the indenture. We may replace the servicer with one or more new servicers, or may add one or more additional servicers.

Book-Entry Registration

The series 2004-1 notes will be delivered in book-entry form through the Same Day Settlement System of The Depository Trust Company.

Interest Rate Cap Agreement

We expect to purchase an interest rate cap agreement on the closing date from Bank of America, N.A., an affiliate of Banc of America Securities LLC, one of the underwriters.

Under the interest rate cap agreement, on the first day of each month up to and including July 1, 2005 (unless the interest rate cap agreement has been earlier terminated in accordance with its terms), the counterparty will pay us an amount, calculated on a monthly basis, equal to the product of (a) the excess, if any of (i) one-month LIBOR as determined for the interest accrual period related to the applicable monthly calculation date over (ii) 5.00%, (b) a notional amount equal to \$300,000,000 and (c) the actual number of days elapsed during the interest period divided by 360. Payments received under the interest rate cap agreement shall constitute counterparty swap payments pursuant to the indenture and will be deposited to the Collection Fund. See the caption “Interest Rate Cap Agreement” herein.

Federal Income Tax Consequences

In the opinion of Chapman and Cutler LLP, the series 2004-1 notes will be characterized as debt obligations for federal income tax purposes. Interest paid or accrued on the series 2004-1 notes will be taxable to you. By accepting a series 2004-1 note, you will be agreeing to treat such series 2004-1 note as a debt instrument for income tax purposes. See the caption “United States Federal Income Tax Consequences” herein

ERISA Considerations

Subject to the considerations described under the caption “ERISA Considerations” herein, the series 2004-1 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 2004-1 notes should consult its tax and/or legal advisors in determining whether all required conditions have been satisfied. See the caption “ERISA Considerations” herein.

Ratings of the Series 2004-1 Notes

All of the series 2004-1A notes offered pursuant to this offering memorandum will be rated “Aaa” by Moody’s Investors Service, Inc. and “AAA” by Fitch Ratings and Standard & Poor’s Rating Services. The series 2004-1B-1 notes offered pursuant to this offering memorandum will be rated at least “A2” by Moody’s Investors Service, Inc. and at least “A” by Fitch Ratings and Standard & Poor’s Rating Services. The ratings on the auction rate notes do not address the likelihood of payment of any carry-over amounts.

CUSIP Numbers

- Series 2004-1A-1 Notes: 66704J AQ 1
- Series 2004-1A-2 Notes: 66704J AR 9
- Series 2004-1A-3 Notes: 66704J AS 7
- Series 2004-1A-4 Notes: 66704J AT 5
- Series 2004-1A-5 Notes: 66704J AU 2
- Series 2004-1A-6 Notes: 66704J AV 0
- Series 2004-1A-7 Notes: 66704J AW 8
- Series 2004-1A-8 Notes: 66704J AX 6
- Series 2004-1B-1 Notes: 66704J AY 4

International Securities Identification Numbers (ISIN)

- Series 2004-1A-1 Notes: US66704JAQ13
- Series 2004-1A-2 Notes: US66704JAR95
- Series 2004-1A-3 Notes: US66704JAS78
- Series 2004-1A-4 Notes: US66704JAT51

Risk Factors

You should consider the following risk factors in deciding whether to purchase the series 2004-1 notes.

Our assets may not be sufficient to pay our notes

On the closing date, after we issue the series 2004-1 notes and acquire the student loans that we expect to acquire on the closing date, the aggregate principal balance of the student loans we own and the other assets pledged as collateral for our notes will be approximately 98.3% of the aggregate principal balance of all our outstanding notes. As a result, if an event of default should occur under the indenture and we were required to redeem all of our notes, our liabilities may exceed our assets. If this were to occur, we would be unable to repay in full all of the holders of our notes and this would affect our subordinate notes before affecting our senior notes. We 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 and other assets in the trust estate.

Payment of principal and interest on the notes is dependent upon collections on the student loans within the trust estate. If the yield on those student loans does not generally exceed the interest rate on the notes and expenses relating to the servicing of those student loans and administration of the indenture, we may have insufficient funds to repay the notes, including the series 2004-1 notes.

Subordination of the series 2004-1B-1 notes and payment priorities may result in a greater risk of loss

Payments of interest and principal on subordinate obligations, including the series 2004-1B-1 notes, are subordinated in priority of payment to payments of interest and principal due on senior obligations, including the series 2004-1A notes, and we are prohibited from redeeming subordinate notes, including the series 2004-1B-1 notes, so long as there are any senior notes outstanding under the indenture unless we receive confirmation from each rating agency that such redemption will not cause the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes; however, we are required to pay the subordinate notes at their stated maturities. The rights of the holders of the subordinate obligations are also subordinated to rights of the holders of the senior obligations as to the direction of remedies upon an event of default. In addition, as long as any senior obligations are outstanding, the failure to make payments on subordinate obligations will not constitute an event of default under the indenture. Consequently, holders of subordinate obligations, including the series 2004-1B-1 notes, may bear a greater risk of losses or delays in payment. See the captions “Source of Payment and Security for the Notes—Priorities” and “Description of the Indenture—Remedies” herein.

Certain notes within a priority level may receive payments of principal after other notes in the priority level. For example, the series 2004-1A-1 notes may receive principal payments

before the series 2004-1A-2 notes, the series 2004-1A-3 notes and the series 2004-1A-4 notes. Consequently, holders of certain notes may bear a greater risk of loss. In that event, you may suffer a loss. Potential purchasers of the series 2004-1 notes should consider the priority of payment of each series of notes before making an investment decision.

A secondary market for the series 2004-1 notes may not develop, which means you may have trouble selling them when you want

The underwriters may assist in resales of the series 2004-1 notes, but they are not required to do so. A secondary market for the series 2004-1 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 2004-1 notes. The series 2004-1 notes will not be supported by a liquidity facility.

Furthermore, the remarketing and auction procedures and transfer requirements described herein may limit the liquidity and marketability of series 2004-1 notes and therefore may not yield a holder the best possible price for a series 2004-1 note. The ratings of the series 2004-1 notes by the rating agencies will not address the market liquidity of the series 2004-1 notes.

If an existing holder of an auction rate note were to submit a sell order or a hold order subject to an interest rate that is determined to be greater than the maximum rate for such auction date, and sufficient clearing bids are not obtained on such auction date, such existing owner will not have its auction rate notes purchased through the auction procedures on such auction date. In such event, no assurance can be given that a broker-dealer will purchase or will otherwise be able to locate a purchaser prior to the next auction date or that sufficient clearing bids will be obtained on any succeeding auction date.

Limited assets will be available to pay principal and interest, which could result in delays in payment or losses on the series 2004-1 notes

The series 2004-1 notes are solely our obligations, and will not be insured or guaranteed by any lender which originated any student loans pledged under the indenture, any servicer, any guarantee agency, the indenture trustee, the eligible lender trustee or any of their affiliates, or by the Department of Education. Moreover, we will have no obligation to make any of our assets available to pay principal or interest on the series 2004-1 notes, other than the student loans acquired with proceeds of the notes and the other assets making up the trust estate. Holders of the notes, including the series 2004-1 notes, must rely for repayment upon revenues realized from the student loans and other assets in the trust estate. See the caption “Source of Payment and Security for the Notes” herein.

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 2004-1 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 eligible lender 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 our ability to pay principal of and interest on the notes, including the series 2004-1 notes. See the captions “Characteristics of the Student Loans—Servicing and Due Diligence” and “Description of the Federal Family Education Loan Program” herein.

The financial health of the guarantee agencies could decline, which could affect the timing and amounts available for payment of the series 2004-1 notes

The student loans are not secured by any collateral of the borrowers. Payments of principal and interest are guaranteed by guarantee agencies to the extent described herein. Excessive borrower defaults could impair a guarantee agency’s ability to meet its guarantee obligations. The financial health of a guarantee agency could affect the timing and amount of available funds for any collection period and our ability to pay principal of and interest on the notes, including the series 2004-1 notes. Furthermore, Great Lakes Higher Education Guaranty Corporation has guaranteed substantially all of the outstanding principal balance of the student loans as of the statistical calculation date.

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 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 eligible lender 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 the captions “Description of the Federal Family Education Loan Program” and “Description of the Guarantee Agencies” herein.

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. 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.

Additional notes may be issued without your consent, which could affect the composition of the outstanding notes

We 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 holders of the notes. The proceeds from the sale of such additional notes will be used to acquire additional student loans, and the additional student loans together with the existing student loans will secure all series of notes issued pursuant to the indenture. These additional notes or other obligations may be senior or subordinate to, or on a parity with, existing series of notes in right of payment. See the caption “Source of Payment and Security for the Notes—Additional Indenture Obligations” herein.

If there is a problem with a student loan that arose prior to our acquisition of that student loans, the trust estate may incur losses on that loan unless NorthStar Capital Markets Services, Inc. purchases it

The transfer of the student loans to us is without recourse against the transferor. We do not have, and neither the indenture trustee nor the eligible lender trustee has, 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 indenture trustee or the eligible lender trustee with good title to the student loans.

NorthStar Capital Markets Services, Inc., however, has agreed in a repurchase agreement in connection with its administration of student loans for us that it will purchase any student loan which ceases to constitute an eligible loan under the indenture due to actions taken or failed to be taken by owners of the student loans prior to our purchase of the student loan. However, NorthStar Capital Markets Services, Inc. may not have the financial resources to purchase all such student loans. Further, this obligation will not cover any event causing a student loan to no longer constitute an eligible loan arising after our purchase of the student loan that was not caused by such action or failure to take such action. See the caption “The Issuer—Repurchase Agreement” herein.

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

Bankruptcy of NorthStar Capital Markets Services, Inc. could result in the failure of NorthStar Capital Markets Services, Inc. to repurchase certain Student Loans

NorthStar Capital Markets Services, Inc. had a cumulative net deficit of \$909,230 as of September 30, 2003 and an unaudited cumulative net deficit of \$342,939 as of December 31, 2003. Although NorthStar Capital Markets Services, Inc. is paying its obligations as they become due, there can be no assurance that such cumulative net deficit will be reduced or eliminated. If NorthStar Capital Markets Services, Inc. becomes bankrupt, the United States Bankruptcy Code could materially limit or prevent the enforcement of NorthStar Capital Markets Services, Inc.'s obligations, including its obligations under its repurchase agreement with us and NorthStar Capital Markets Services, Inc. in connection with the administration of our student loans. A bankruptcy of NorthStar Capital Markets Services, Inc. may mean that NorthStar Capital Markets Services, Inc. cannot purchase any student loan which ceases to be an eligible loan under the indenture.

Offset by guarantee agencies or the Department of Education could reduce the amounts available for payment of the series 2004-1 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 our behalf or on behalf of 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 our behalf or on behalf of 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 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 our ability to pay interest and principal on the notes, including the series 2004-1 notes. See the caption "Description of the Federal Family Education Loan Program" herein.

The Federal Family Education Loan Program could change, which could adversely affect the student loans and the timing and amounts available for payment of the series 2004-1 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. We cannot predict whether any changes will be adopted or, if so, what impact such changes may have on us or the notes, including the series 2004-1 notes.

Bills have recently been introduced in the U.S. House of Representatives that, if enacted into law, would permit borrowers under most consolidation loans to refinance their student loans at lower interest rates. Any legislation that permits borrowers to refinance existing consolidation loans at lower interest rates could significantly increase the rate of prepayments on our student loans. A faster rate of prepayments would decrease the amount of excess interest available to redeem the series 2004-1 notes. In addition, if the legislation described above or any similar legislation is enacted into law, the length of time that the offered notes are outstanding and their weighted average lives may be shortened significantly.

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

We face competition from other lenders that could decrease the volume of eligible loans that we can acquire. 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 Federal Family Education Loan Program. Reduced volume in our program in particular and in the Federal Family Education Loan 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 the caption “Description of the Federal Family Education Loan Program” herein.

Redemption of the auction rate notes may create reinvestment risks

The proceeds of the series 2004-1 notes include amounts to be deposited in the Capitalized Interest Fund and used to pay interest on the notes and other amounts payable from the Collection Fund. 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, we may prepay principal on the notes, possibly including the auction rate notes. See the caption “Description of the Indenture—Funds and Accounts” herein.

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, NorthStar Capital Markets Services, Inc. may be obligated to purchase student loans from us pursuant to a repurchase 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 our purchase of them. See the caption “Characteristics of the Student Loans” herein.

The Department of Education has implemented a direct consolidation loan program which, together with consolidation loans made by lenders in the FFELP, may result in prepayments of student loans. To the extent borrowers elect to borrow money through consolidation loans, or otherwise to prepay their loans, we may use repayments to prepay the notes, possibly including the auction rate notes.

We also have the right to redeem our auction rate notes at any time, from any source, including through the issuance of refunding obligations or the sale of student loans.

If your auction rate 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 auction rate notes. In addition, your yield may be reduced if you purchased your auction rate note at a premium and the principal is paid sooner than you expected, or if you purchased your auction rate note at a discount and the principal is paid later than you expected. We cannot predict the prepayment rate of any auction rate 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 auction rate notes are subject to limitations, which could reduce your yield

The interest rates on the auction rate notes may be limited by the maximum auction rate (which will be based on the 91-day United States Treasury bill rate for a one-year period plus a margin), the maximum interest rate (which will be based on the least of 18% per annum and the highest interest rate permitted by law), one-month LIBOR + 1.00% or, in certain circumstances, the net loan rate described under the caption “Summary of Terms—Description of the Series 2004-1 Notes—*Auction Rate Notes*” herein. If, for any auction period, the rate described above is less than the auction rate determined in accordance with the auction procedures, interest will be paid on the auction rate notes at the rate described above even though there may be sufficient available funds to pay interest at the auction rate.

For an auction period on which the maximum rate applies, the difference between the amount of interest at the auction rate determined pursuant to the auction procedures for the auction rate notes and the amount of interest at the maximum rate will become a carry-over amount, and will be paid on succeeding auction rate distribution dates only to the extent that there are funds available for that purpose and other conditions are met. It is possible that such carry-over amount may never be paid. Any carry-over amount not paid at the time of redemption or maturity of an auction rate note will be extinguished.

The interest rates on our investments may be insufficient to cover interest on the series 2004-1 notes

Unspent proceeds of the series 2004-1 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 2004-1 notes or any of our other notes.

Different rates of change in interest rate indexes may affect our cash flow

The interest rates on the notes issued pursuant to the indenture will fluctuate from one interest period to another in response to changes in LIBOR rates or as a result of the auction procedures described in this offering memorandum. The student loans pledged under the indenture bear interest at rates which are generally based upon the bond equivalent yield of the 91-day United States Treasury bill rate, and we may be entitled to receive special allowance payments on our student loans from the Department of Education based upon a three-month commercial paper rate or the 91-day United States Treasury bill rate. See the caption “Description of the Federal Family Education Loan Program” herein. If there is a decline in the rates payable on student loans pledged under the indenture, the amount of funds representing interest deposited into the Collection Fund may be reduced. If the interest rates payable on our notes do not decline in a similar manner and time, we may not have sufficient funds to pay interest on our notes when they become due. Even if there is a similar reduction in the rates applicable to the notes, there may not necessarily be a reduction in the other amounts required to be paid out of the trust estate, such as servicing fees and administrative expenses, causing interest payments to be deferred to future periods. Sufficient funds may not be available in future periods to make up for any shortfalls in the current payments of interest on the notes or expenses of the trust estate.

If the indenture trustee is forced to sell loans after an event of default under the indenture, there could be losses on the series 2004-1 notes

Generally, during an event of default under the indenture, the indenture trustee is authorized with the consent of certain holders of the notes to sell the student loans within the trust estate. However, the indenture trustee may not find a purchaser for those student loans. Also, the market value of those student loans plus other assets in the trust estate might not equal the principal amount of outstanding notes and accrued interest thereon. The competition currently existing in the secondary market for loans made under the Federal Family Education Loan Program also could be reduced, resulting in fewer potential buyers of those student loans and lower prices available in the secondary market for those student loans. The holders of the notes may suffer a loss if the indenture trustee is unable to find purchasers willing to pay sufficient prices for the student loans.

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

The servicer or a custodian generally will have custody of the original or a copy of the promissory notes related to the student loans, including where a student loan has been made under a master promissory note retained by the originating 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 indenture trustee's security interest, even though the servicer or custodian 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.

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, including the series 2004-1B-1 notes, generally have no voting rights while any senior notes are outstanding. The holders of subordinate notes generally have no recourse if they disagree with the specified percentage of holders. See the captions "Description of the Indenture—Events of Default," "—Remedies" and "—Supplemental Indentures Requiring Consent of Noteholders" and the definition of "acting beneficiaries upon default" under the caption "Glossary of Certain Defined Terms" herein.

Rating agencies can permit certain actions to be taken without Noteholder approval

The indenture provides that we, and the indenture trustee, may undertake various actions based upon receipt by the indenture trustee of confirmation from the rating agencies that the outstanding ratings assigned by such rating agencies 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 our execution of swap agreements. To the extent such actions are taken after issuance of the series 2004-1 notes, investors in the series 2004-1 notes will be relying on the evaluation by the rating agencies of such actions and their impact on credit quality.

The series 2004-1 notes are not suitable investments for all investors

The series 2004-1 notes are not a suitable investment if you require a regular or predictable schedule of payments or payment on any specific date. The series 2004-1 notes are

complex investments that should be considered only by investors who, either alone or with their financial, tax and legal advisors, have the expertise to analyze the prepayment, reinvestment, default and market risk, the tax consequences of an investment, and the interaction of these factors.

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

The series 2004-1 notes will be represented by one or more certificates registered in the name of Cede & Co., the nominee for The Depository Trust Company, and will not be registered in your name. You will only be able to exercise the rights of holders of the notes indirectly through The Depository Trust Company and its participating organizations. See the caption “Book-Entry Registration” herein.

Credit ratings only address a limited scope of your concerns

A rating agency will rate each series of the series 2004-1 notes. A rating is not a recommendation to buy or sell series 2004-1 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 2004-1 notes, the likelihood of the payment of carry-over amounts or the market liquidity of the series 2004-1 notes. A rating may not remain in effect for the life of the series 2004-1 notes. See the caption “Ratings” herein.

We may enter into swap agreements which could result in delays in payment or losses on the series 2004-1 notes if the counterparty fails to make its payments

Under the indenture, we may enter into interest rate swap agreements if certain requirements are met, including the requirement that the rating agencies 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 the caption “Source of Payment and Security for the Notes—Additional Indenture Obligations” herein.

The composition and characteristics of the student loan portfolio will continually change, and loans that bear a lower rate of return or have a greater risk of loss may be acquired

The eligible loans we have already acquired and those which we intend to acquire with the proceeds of the series 2004-1 notes on the closing date are described in this offering memorandum. Certain amounts received with respect to those student loans may be used to acquire additional student loans during a revolving period. We expect to issue additional notes and acquire or originate additional student loans with the proceeds of those notes. The characteristics of the student loan portfolio included in the trust estate will change from time to time as new student loans are acquired and may also change as a result of amendments to the Higher Education Act, changes in terms of our student loan programs, acquisition of loans not

made under our student loan programs, sales or exchanges of loans and scheduled amortization, prepayments, delinquencies and defaults on the financed student loans.

The United States military build-up may result in delayed payments from borrowers called to active military service

The Servicemembers Civil Relief Act, signed into law by the President on December 19, 2003, updates and replaces the Soldiers' and Sailors' Civil Relief Act of 1940. The Relief Act provides relief to borrowers who enter active military service and to borrowers in reserve status who are called to active duty after the origination of their student loan. The Servicemembers Civil Relief Act limits the ability of lenders of FFELP loans and guaranty agencies to take legal action against a borrower during the borrower's period of active duty and, in some cases, during an additional three month period thereafter. As a result, there may be delays in payment and increased losses on the financed student loans.

The Department has issued guidelines that extend the in-school status, in-school deferment status, grace period status or forbearance status of certain borrowers ordered to active duty. Further, if a borrower is in default on a FFELP loan, the applicable guaranty agency must, upon being notified that the borrower has been called to active duty and during certain time periods as from time to time designated by the Department of Education, cease all collection activities for the expected period of the borrower's military service.

We do not know how many student loans have been or may be affected by the application of the Servicemembers Civil Relief Act. Payments on student loans within the trust estate may be delayed as a result of these requirements, which may reduce the funds available to pay principal and interest on the notes.

Higher Education Relief Opportunities for Students Act of 2003 may result in delayed payments from Borrowers

The Higher Education Relief Opportunities for Students Act of 2003 ("HEROS Act of 2003"), signed by the President on August 18, 2003, authorizes the Secretary of Education, during the period ending September 30, 2005, to waive or modify any statutory or regulatory provisions applicable to student financial aid programs under Title IV of the Higher Education Act as the Secretary deems necessary for the benefit of "affected individuals" who:

- are serving on active military duty during a war or other military operation or national emergency;
- reside or are employed in an area that is declared by any federal, state or local office to be a disaster area in connection with a national emergency; or
- suffered direct economic hardship as a direct result of war or other military operation or national emergency, as determined by the Secretary.

The Secretary is authorized to waive or modify any provision of the Higher Education Act to ensure that:

- such recipients of student financial assistance are not placed in a worse financial position in relation to that assistance;
- administrative requirements in relation to that assistance are minimized;
- calculations used to determine need for such assistance accurately reflect the financial condition of such individuals;
- to provide for amended calculations of overpayment; and
- institutions of higher education, eligible lenders, guaranty agencies and other entities participating in such student financial aid programs that are located in, or whose operations are directly affected by, areas that are declared to be disaster areas by any federal, state or local official in connection with a national emergency may be temporarily relieved from requirements that are rendered infeasible or unreasonable.

The Secretary was given this same authority under the Higher Education Relief Opportunities for Students Act of 2001, signed by the President on January 15, 2001, but the Secretary has yet to use this authority to provide specific relief to servicepersons with loan obligations who are called to active duty. The number and aggregate principal balance of student loans that may be affected by the application of the HEROS Act of 2003 is not known at this time. Accordingly, payments we receive on student loans made to a borrower who qualifies for such relief may be subject to certain limitations. If a substantial number of borrowers become eligible for the relief provided under the HEROS Act of 2003, there could be an adverse effect on the total collections on our financed student loans and our ability to pay principal and interest on the notes, including the series 2004-1 notes.

Special Note Regarding Forward Looking Statements

Statements in this offering memorandum, including those concerning expectations as to our ability to purchase eligible student loans, to structure and to issue competitive securities, our ability to pay our notes, including the series 2004-1 notes, and certain other information presented in this offering memorandum, constitute “forward looking statements,” which represent our expectations and beliefs about future events. Actual results may vary materially from such expectations. For a discussion of the factors which could cause actual results to differ from expectations, see the caption “Risk Factors” herein.

Previously Issued Notes

Information concerning each outstanding series of notes that we have previously issued under the indenture is provided below. The student loans and other assets pledged to the indenture trustee will serve as collateral for the outstanding notes and any additional notes that we may issue under the indenture in the future, as well as the offered notes.

<u>Series</u>	<u>Type of Securities</u>	<u>Outstanding Principal Amount</u>	<u>Maturity Date</u>
Senior Series 2002A-1	Auction Rate	\$65,500,000	April 1, 2042
Senior Series 2002A-2	Auction Rate	65,500,000	April 1, 2042
Senior Series 2002A-3	Auction Rate	65,500,000	April 1, 2042
Senior Series 2002A-4	Auction Rate	65,500,000	April 1, 2042
Senior Series 2002A-5	Auction Rate	65,500,000	April 1, 2042
Senior Series 2002A-6	Auction Rate	65,500,000	April 1, 2042
Senior Series 2000A-1	Auction Rate	50,250,000	November 1, 2040
Senior Series 2000A-2	Auction Rate	50,250,000	November 1, 2040
Subordinate Series 2002B-1	Auction Rate	37,000,000	April 1, 2042
Subordinate Series 2000B	Auction Rate	<u>9,500,000</u>	November 1, 2040
Total		<u>\$540,000,000</u>	

The current outstanding principal balance of each series of notes listed above is equal to its original principal amount. We have paid in full all amounts due and payable on each series of notes specified above.

The Issuer

Organization

NorthStar Education Finance, Inc. is a Delaware nonstock nonprofit corporation incorporated in January of 2000. We are a membership organization, and our current members are our board of directors. We were formed to carry on the student loan programs started by NorthStar Guarantee, Inc. as described below.

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

NorthStar Guarantee, Inc. changed its business focus in 1997 from that of a guarantee agency and disbursement agent for other lenders to that of a direct lender of education loans. The change in business activities coincided with NorthStar Guarantee, Inc. affiliating with the Great Lakes Higher Education Corporation of Madison, Wisconsin. NorthStar Guarantee, Inc. and Great Lakes Higher Education Corporation 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 we were formed for that purpose.

Shortly after receiving a favorable determination from the Internal Revenue Service in March of 2003 that we were an organization described in Section 501(c)(3) of the Internal

Revenue Code, NorthStar Guarantee, Inc. transferred beneficial ownership of all remaining assets (including all student loans) to us and we assumed all associated liabilities. Through January 31, 2004, we owned approximately \$2.3 billion of student loans.

We formed NorthStar Capital Markets Services, Inc., a Delaware for-profit business corporation, in January of 2000, and we are the majority and controlling shareholder of NorthStar Capital Markets Services, Inc.

We have only a minimal number of employees, but we have entered into an administration agreement with NorthStar Capital Markets Services, Inc. to perform our personnel services. NorthStar Capital Markets Services, Inc. also performs certain duties for NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C., NorthStar T.H.E. Funding III, L.L.C. and NorthStar Guarantee, Inc. with respect to the origination, servicing and financing of loans under the T.H.E. Loan Program described below.

Directors and Officers

Our current officers and directors are as follows:

Name	Position	Principal Occupation
Kennon Rothchild	Chairman of the Board	Retired Mortgage Banker, former President of the Minnesota State College System
Taige P. Thornton	President and Chief Executive Officer	Northstar Companies
Clyde Nelson	Treasurer and Director	Retired Mortgage Banker
Charles Osborne	Director	Treasurer of the University of Minnesota Foundation, former CFO of two Fortune 500 companies
The Honorable Bill Frenzel	Director	Guest Scholar, Brookings Institution and former Congressman
Jayne B. Khalifa	Director	Public and Private sector Management
Anita Pampusch	Director	President, The Bush Foundation
Mark A. Lindgren	Secretary	Northstar Companies
Jamie Wolfe	Chief Financial Officer	NorthStar Companies

Each of our directors and officers holds his or her position until death, resignation, removal or until his or her successor is elected and qualified.

We have several board committees, including an audit committee. The audit committee is chaired by Bill Frenzel, and Charles Osborne and Anita Pampusch are members. The audit committee operates pursuant to a charter that sets forth its responsibilities.

Affiliated Corporations

Northstar Capital Markets Services, Inc. Northstar Capital Markets Services, Inc. is a Delaware for-profit business corporation. We hold 97% of NorthStar Capital Markets Services, Inc.'s outstanding common stock. NorthStar Capital Markets Services, Inc. has adopted an incentive stock option plan under which options to acquire NorthStar Capital Markets Services, Inc. common stock have been and may be issued to members of NorthStar Capital Markets

Services, Inc. management. The current officers and directors of NorthStar Capital Markets Services, Inc. are as follows:

Name	Position	Principal Occupation
Charles Osborne	Chairman of the Board	Treasurer of the University of Minnesota Foundation, former CFO of two Fortune 500 companies
Taige P. Thornton	President, Chief Executive Officer and Director	Northstar Companies
Jamie Wolfe	Chief Financial Officer, Treasurer and Director	Northstar Companies
Lisa Schoonover	Chief Operating Officer	Northstar Companies
Mark A. Lindgren	Secretary, Vice President and General Counsel	Northstar Companies
Thomas Dixon	Chief Information Officer	Northstar Companies
Robert Misenko	Executive Vice President of Sales and Marketing	Northstar Companies
Kennon Rothchild	Director	Retired Mortgage Banker
Charlton Dietz	Director	Retired General Counsel, 3M Corporation
John D. Emerick, Jr.	Director	Director of Media Industry Finance, the CIT Group
Judith Mares	Director	Financial Consultant, Member of the Minnesota State Board of Investments Advisory Group, former Chair of the U.S. Department of Labor ERISA Advisory Council

NorthStar Capital Markets Services, Inc. has several board committees, including an audit committee and an investments committee. The audit committee is chaired by Charlton Dietz, and Judy Mares and John Emerick are members. The audit committee operates pursuant to a charter that sets forth its responsibilities. The investments committee is responsible for approving derivative transactions, among other things. The members of the investment committee are Charles Osborne, John Emerick and Judith Mares.

NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C. and NorthStar T.H.E. Funding III, L.L.C. NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C. and NorthStar T.H.E. Funding III, L.L.C. are each a Delaware limited liability company, the sole member of which is NorthStar Guarantee, Inc. The managers of these entities are members of our management and one other independent manager with no affiliation with the NorthStar Companies, their affiliates, management or board members.

NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C. and NorthStar T.H.E. Funding III, L.L.C. originate and hold student loans. They are each limited purpose bankruptcy remote entities that obtain all of their funding from asset-backed commercial paper conduits. Their limited liability company agreements restrict activities to originating and holding student loans financed by those conduits and selling such loans into other financings.

NorthStar Education Finance, Inc., NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C., NorthStar T.H.E. Funding III, L.L.C. and NorthStar Capital Markets

Services, Inc., all of which are affiliates, are collectively referred to herein as the “NorthStar Companies.”

Key Personnel of NorthStar Companies

Taige P. Thornton, 51, is our President and Chief Executive Officer and the President and Chief Executive Officer of NorthStar Capital Markets Services, Inc. He is a director of NorthStar Capital Markets Services, Inc. Mr. Thornton started NorthStar Guarantee, Inc. 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 25 years. His 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, 42, is our Chief Financial Officer and the Chief Financial Officer of NorthStar Capital Markets Services, Inc, and is a director of NorthStar Capital Markets Services, Inc. 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 Guarantee, Inc. 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, 41, is the Chief Operating Officer of NorthStar Capital Markets Services, Inc. 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 Companies’ product lines. Ms. Schoonover has been in the student loan industry since 1988, and employed by the NorthStar Companies since 1991.

Thomas Dixon, 45, is the Chief Information Officer for NorthStar Capital Markets Services, Inc. Mr. Dixon began with the NorthStar Companies in 1991, joined Great Lakes Higher Education Corporation in 1997 and rejoined the NorthStar Companies in 2000. He is responsible for strategic, design and operational decisions regarding the information technology utilized by the NorthStar Companies. Mr. Dixon has 19 years of experience in analysis, design, development, and management of computer software with 14 years experience in the student loan industry. Mr. Dixon has held positions with Higher Education Assistance Foundation, NorthStar Guarantee, Inc., and Great Lakes Higher Education Corporation. Mr. Dixon received a BS in Computer Science from the University of Minnesota in 1996.

Mark Lindgren, 49, has been employed by the NorthStar Companies since March of 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.

Robert I. Misenko, 55, is the Executive Vice President of Sales and Marketing. Mr. Misenko is responsible for developing and implementing NorthStar's overall marketing and sales strategies. Mr. Misenko has been employed by the NorthStar Companies since January of 2002. Previously, Mr. Misenko had been the Vice President for Sales and Marketing at HEMAR Insurance Corporation of America (a wholly owned subsidiary of Sallie Mae) for 12 years, and prior to that a financial aid practitioner for 17 years, most notably as the Director of Financial Aid at the University of Minnesota. Mr. Misenko received his undergraduate degree from the University of Wisconsin – Eau Claire, and his Master's Degree from North Dakota State University.

Operations

Our primary activity is the administration of our loan programs, which consist of the T.H.E. Loan Program. The T.H.E. Loan Program provides both federally reinsured and alternative loans to students attending qualified graduate and four-year undergraduate schools.

NorthStar Capital Markets Services, Inc currently has 57 employees. Its offices are located at 444 Cedar Street, Suite 550, St. Paul, Minnesota 55101. Its telephone number is 888-843-0004.

As of September 30, 2003, the NorthStar Companies had total assets of \$2.084 billion and total liabilities of \$2.073 billion, and accumulated earnings as of such date of \$11.2 million. As of September 30, 2003, NorthStar Capital Markets Services, Inc. had total assets of \$3.85 million and total liabilities of \$4.76 million, and a cumulative net deficit as of such date of \$909,230. In its unaudited statements as of December 31, 2003, the NorthStar Companies had total assets of \$2.373 billion and total liabilities of \$2.362 billion, and accumulated earnings as of such date of \$11.4 million. In its unaudited statements as of December 31, 2003, NCMS had total assets of \$4.33 million and total liabilities of \$4.67 million, and a cumulative net deficit as of such date of \$342,939. NorthStar Capital Markets Services, Inc. may not have sufficient assets at any point in time to acquire loans pursuant to the repurchase agreement. Except for our limited assets pledged under the indenture and the purchase obligation of NorthStar Capital Markets Services, Inc. with respect to certain student loans as described under the caption "Characteristics of the Student Loans" herein, none of the assets of the NorthStar Companies are available to pay principal of or interest on the notes.

NorthStar Loan Programs

NorthStar Guarantee, Inc.'s loan program is known as the Total Higher Education (T.H.E.) Loan Program (the "T.H.E. Loan Program"). The T.H.E. Loan Program is marketed to graduate professional schools and four-year undergraduate institutions. NorthStar Guarantee, Inc.'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.

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

- (a) Federal Family Education Loans (FFELP loans):
 - (i) Subsidized FFELP loans;
 - (ii) Unsubsidized FFELP loans;
 - (iii) Parent Loan For Undergraduate Student (PLUS); and
 - (iv) Consolidation Loans.
- (b) Alternative Loans:
 - (i) Medical Loans;
 - (ii) Law/MBA Loans; and
 - (iii) Other 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 FFELP loans and alternative loans are offered separately or as a comprehensive financing package. The T.H.E. Loan Program is available in the following manner: (a) the federally guaranteed loan is available to any student attending an eligible four-year institution and (b) the alternative loan is available to students that meet the NorthStar Companies' credit underwriting requirements and are attending eligible institutions.

At January 31, 2004, we owned FFELP loans of \$1.926 billion and alternative loans of \$296 million. None of the alternative loans are held within the trust estate securing the notes.

Loan Origination

When NorthStar Guarantee, Inc. and Great Lakes Higher Education Corporation affiliated in 1997, NorthStar Guarantee, Inc.'s origination processing personnel became employees of Great Lakes Higher Education Corporation. Until April 2000, all loans originated by or on behalf of NorthStar Guarantee, Inc. were processed and serviced by Great Lakes Higher Education Corporation under contract with NorthStar Guarantee, Inc. Since April 2000, NorthStar Capital Markets Services, Inc. has processed substantially all originations. Great Lakes Higher Education Corporation retains all servicing functions and will continue to originate a small number of loans. The alternative loans are originated by University National Bank and purchased by us shortly after origination pursuant to the terms of a purchase and sale agreement under which University National Bank may, but is not obligated to, offer to sell alternative loans to us.

The NorthStar Company's Program Guidelines (the "Program Guidelines") set forth the terms under which loans will be made and define borrower and school eligibility. The T.H.E. Loan Program includes discipline specific programs for law, MBA, and medical students. The T.H.E. Loan Program also includes a national program generally available to other graduate students and undergraduate students who, alone or with a cosigner, meet certain credit underwriting criteria. The T.H.E. Loan Program includes 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. Loan Program federal guaranteed loans.

Alternative loans may be made only to eligible borrowers at eligible schools. Borrower eligibility is determined through a proprietary credit underwriting process utilizing credit scoring models. School eligibility is determined by the NorthStar Companies based, in part, on the school's historical default experience.

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 a borrower does not meet the credit requirements or an application is otherwise 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.

Eligible Lender Trustee

U.S. Bank National Association is our eligible lender trustee under an eligible lender trust agreement. U.S. Bank National Association is a national banking association with offices located at 428 Walnut Street, Box CN-WN-06ct, Cincinnati, Ohio 45202, Attention: Corporate Trust Services. The eligible lender trustee will hold legal title on our behalf to all the student loans in the trust estate. The eligible lender trustee on our behalf has entered into a guarantee agreement with each of the guarantee agencies guaranteeing our student loans. The eligible lender trustee qualifies as an eligible lender and the holder of our student loans for all purposes under the Higher Education Act and the guarantee agreements. If our student loans were not owned by an eligible lender, our rights to receive guarantee agency and Department of Education payments on our student loans would be lost.

The Administration Agreement

We have entered into an administration agreement with NorthStar Capital Markets Services, Inc. pursuant to which NorthStar Capital Markets Services, Inc. provides personnel services to us. Pursuant to the administration agreement, NorthStar Capital Markets Services, Inc. is paid a monthly administrative fee equal to one-twelfth of 0.50% of the ending principal balance of the financed student loans, plus accrued interest, during the preceding month, which is used in part to pay the servicing fees to our servicers, and a monthly marketing and school

services expense allowance equal to one-twelfth of 0.10% of the ending balance of the financed student loans, plus accrued interest, during the preceding month.

Repurchase Agreement

We have entered into a repurchase agreement with NorthStar Capital Markets Services, Inc. pursuant to which NorthStar Capital Markets Services, Inc. has agreed to purchase, within 30 days of our request, any financed student loan which has ceased to be an eligible loan under the indenture due to any action taken or failed to be taken by the owner of such student loan prior to our acquisition of such student loan at a price equal to the principal balance of such student loan. Such purchase price shall be paid to the indenture trustee for deposit to the Acquisition Fund. We have agreed that the obligation of NorthStar Capital Markets Services, Inc. to purchase such student loan shall constitute our sole remedy and the sole remedy of the holders of the notes and the indenture trustee for any losses, claims, damages and liabilities arising from our interest in the student loan or the inclusion of our interest in the student loan in the trust estate.

The Servicing Agreements

We have entered into servicing agreements with Great Lakes Educational Loan Services, Inc. Pursuant to the servicing agreements, Great Lakes Educational Loan Services, Inc. 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 our 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. Great Lakes Educational Loan Services, Inc. agrees to service the loans in compliance with the Higher Education Act, the guidelines of the applicable guarantee agency, and all applicable federal and state laws and regulations. At our option, Great Lakes Educational Loan Services, Inc. may be required to provide certain origination services. Origination services are currently being provided by Great Lakes Educational Loan Services, Inc. only for a few select Wisconsin schools.

We have agreed to pay Great Lakes Educational Loan Services, Inc. a monthly fee for the servicing of our student loans according to schedules set forth in the servicing agreements and our program guidelines. The fees are subject to annual increases. The servicing agreements provide that Great Lakes Educational Loan Services, Inc. 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 servicing agreements continue in force until terminated or modified as set forth therein. The servicing agreements may be terminated only at the end of a calendar quarter and only if written notice is given: (a) by us to Great Lakes Educational Loan Services, Inc., at least 30 days prior to the end of a calendar quarter; or (b) by Great Lakes Educational Loan Services, Inc., to us at least 180 days prior to the end of a calendar quarter. We have not given, nor have

we received, any such written notice, and we do not presently intend to give any such notice. Upon our termination of the servicing agreements, we are obligated to pay a termination fee set forth in the servicing agreements.

Description of Great Lakes Educational Loan Services, Inc.

Great Lakes Educational Loan Services, Inc. (“GLELSI”) acts as a loan servicing agent for us. GLELSI is a wholly owned subsidiary of Great Lakes Higher Education Corporation (“GLHEC”), a Wisconsin nonstock, nonprofit corporation. The primary operations center for GLHEC and its affiliates (including GLELSI) is in Madison, Wisconsin, which includes the data processing center and operational staff offices for both guarantee support services provided by GLELSI to GLHEC and affiliates and third party guaranty agencies and lender servicing and origination functions. GLHEC and its affiliates also maintain regional offices in Columbus, Ohio and St. Paul, Minnesota and customer support staff located nationally.

As of February 29, 2004, GLELSI serviced 1,473,945 student and parental accounts with an outstanding balance of \$18.7 billion for over 1,200 lenders nationwide. As of February 29, 2004, 63% of the portfolio serviced by GLELSI was in repayment status, 4% was in grace status and the remaining 33% was in interim status. GLELSI will provide a copy of GLHEC’s most recent consolidated financial statements on receipt of a written request directed to 2401 International Lane, Madison, Wisconsin 53704, Attention: Chief Financial Officer.

Use of Proceeds

We estimate that the proceeds from the sale of the series 2004-1 notes net of the underwriting discount will be applied as follows:

Deposit to Acquisition Fund	\$948,690,000
Deposit to Reserve Fund	6,150,000
Deposit to the Administration Fund	753,000
Deposit to the Capitalized Interest Fund	40,000,000
Deposit to Collection Fund	<u>1,500,000</u>
Total	<u>\$997,093,000</u>

We will use up to \$753,000 of the proceeds of the series 2004-1 notes deposited to the Administration Fund to pay the costs of issuing the series 2004-1 notes. We, acting through our eligible lender trustee, expect to use substantially all of the proceeds deposited to the Acquisition Fund to acquire student loans on the closing date from NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C. and T.H.E. Funding III, L.L.C. and their eligible lender trustees.

Characteristics of the Student Loans

As of January 31, 2004, the statistical calculation date, the characteristics of the student loans presently included in the trust estate established pursuant to the indenture, including the initial pool of student loans that we expect to purchase on the closing date with the net proceeds of the series 2004-1 notes were as described below. All student loans included in the trust estate

and those which we intend to purchase with the net proceeds of the series 2004-1 notes will consist of FFELP loans. Since the date for purchase of the student loans to be acquired with the net proceeds of the series 2004-1 notes is other than the statistical calculation date, the characteristics of those student loans will vary from the information presented below. As of the statistical calculation date, the student loans had an aggregate outstanding principal balance of approximately \$1,425,520,807, plus accrued interest of approximately \$35,196,805. The percentages set forth in the tables below may not always add to 100% and the balances may not always add to \$1,425,520,807 due to rounding.

**Composition of the Student Loan Portfolio
(As of the Statistical Calculation Date)**

Aggregate outstanding Principal Balance:	\$1,425,520,807
Number of Borrowers:	43,457
Average outstanding Principal Balance Per Borrower:	\$32,803
Number of Loans:	124,192
Average outstanding Principal Balance Per Loan:	\$11,478
Weighted Average Borrower Interest Rate:	3.20%
Weighted Average Remaining Term to Maturity (Months):	222

**Distribution of the Student Loans by Loan Type
(As of the Statistical Calculation Date)**

<u>Loan Type</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Consolidation	14,094	\$518,341,488	36.36%
PLUS	2,522	20,129,029	1.41
Subsidized Stafford	63,073	388,340,736	27.24
Unsubsidized Stafford	<u>44,503</u>	<u>498,709,554</u>	<u>34.98</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by Discipline
(As of the Statistical Calculation Date)**

<u>Discipline</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Medical	52,949	\$850,447,654	59.66%
Law/MBA	27,419	324,234,230	22.74
4-Year/Graduate	<u>43,824</u>	<u>250,838,923</u>	<u>17.60</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by Borrower Interest Rate
(As of the Statistical Calculation Date)**

<u>Borrower Interest Rate</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Less than 3.01%	91,112	\$932,403,000	65.41%
3.01% - 3.50%	24,389	265,059,703	18.59
3.51% - 4.00%	2,305	92,247,642	6.47
4.01% - 4.50%	4,535	75,369,838	5.29
4.51% - 5.00%	365	13,420,355	0.94
5.01% - 5.50%	465	12,676,696	0.89
5.51% - 6.00%	528	18,324,818	1.29
Greater than 6.00%	<u>493</u>	<u>16,018,755</u>	<u>1.12</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by SAP Interest Rate Index
(As of the Statistical Calculation Date)**

<u>SAP Interest Rate Index</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
90-Day CP Index	112,158	\$1,342,138,886	94.15%
91-Day T-Bill Index	<u>12,034</u>	<u>83,381,921</u>	<u>5.85</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by Number of Days Delinquent
(As of the Statistical Calculation Date)**

<u>Days Delinquent</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Current	120,696	\$1,396,919,112	97.99%
31 - 60	2,239	19,415,153	1.36
61 - 90	407	3,161,035	0.22
91 - 120	111	740,190	0.05
121 - 150	159	1,165,844	0.08
151 - 180	94	833,457	0.06
Greater than 180	<u>486</u>	<u>3,286,017</u>	<u>0.23</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student
Loans by Range of Principal Balance
(As of the Statistical Calculation Date)**

<u>Principal Balance</u>	<u>Number of Borrowers</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Less than \$10,000.00	14,769	\$ 79,129,707	5.55%
\$10,000.00 - \$14,999.99	3,910	47,698,505	3.35
\$15,000.00 - \$19,999.99	4,897	86,544,635	6.07
\$20,000.00 - \$24,999.99	1,757	39,359,138	2.76
\$25,000.00 - \$29,999.99	1,985	53,844,465	3.78
\$30,000.00 - \$39,999.99	4,294	152,332,288	10.69
\$40,000.00 - \$49,999.99	2,363	106,249,551	7.45
\$50,000.00 - \$59,999.99	2,067	114,536,000	8.03
\$60,000.00 - \$69,999.99	1,411	91,546,279	6.42
\$70,000.00 - \$79,999.99	1,476	111,044,432	7.79
\$80,000.00 - \$89,999.99	1,122	94,816,219	6.65
\$90,000.00 - \$99,999.99	662	62,626,228	4.39
\$100,000.00 - \$124,999.99	1,124	126,448,506	8.87
\$125,000.00 - \$149,999.99	701	94,375,104	6.62
\$150,000.00 and greater	<u>919</u>	<u>164,969,750</u>	<u>11.57</u>
Total	<u>43,457</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by
Number of Months to Scheduled Maturity
(As of the Statistical Calculation Date)**

<u>Number of Months to Scheduled Maturity*</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Less than 60	90	\$ 322,712	0.02%
60 to 100	4,897	21,057,265	1.48
101 to 120	17,195	112,110,583	7.86
121 to 140	25,734	176,537,401	12.38
141 to 180	49,901	462,960,733	32.48
181 to 240	15,718	180,298,414	12.65
241 to 300	2,031	44,919,896	3.15
301 to 360	5,107	211,964,683	14.87
360 and greater	<u>3,519</u>	<u>215,349,119</u>	<u>15.11</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

*Does not give affect to any deferral or forbearance periods that may be granted in the future.

**Distribution of the Student Loans by Borrower Payment Status
(As of the Statistical Calculation Date)**

<u>Borrower Payment Status</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
In-School	69,982	\$ 630,839,437	44.25%
Grace	7,117	45,799,922	3.21
Deferment	12,725	252,581,478	17.72
Forbearance	3,447	59,319,198	4.16
Repayment	30,880	436,625,853	30.63
Claim	41	354,920	0.02
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by Geographic Location
(As of the Statistical Calculation Date)**

The following chart shows the geographic distribution of the student loans based on the permanent billing addresses of the borrowers as shown on the subservicer's records:

<u>Location</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Alabama	1,410	\$ 16,146,152	1.13%
Alaska	151	1,665,494	0.12
Arizona	787	11,986,029	0.84
Arkansas	326	4,410,920	0.31
California	18,146	240,731,811	16.89
Colorado	824	11,667,997	0.82
Connecticut	1,593	20,332,195	1.43
Delaware	325	4,662,608	0.33
District of Columbia	1,594	16,612,087	1.17
Florida	4,912	55,012,869	3.86
Georgia	1,193	15,593,907	1.09
Hawaii	294	3,545,318	0.25
Idaho	185	2,593,286	0.18
Illinois	3,408	46,261,572	3.25
Indiana	623	8,055,947	0.57
Iowa	428	3,979,801	0.28
Kansas	583	7,941,246	0.56
Kentucky	458	6,199,376	0.43
Louisiana	4,502	46,657,789	3.27
Maine	1,197	11,742,977	0.82
Maryland	14,817	84,314,210	5.91
Massachusetts	3,227	45,597,126	3.20

<u>Location</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	<u>Percent of Pool by Outstanding Principal Balance</u>
Michigan	3,828	\$ 44,841,664	3.15%
Minnesota	6,276	31,838,744	2.23
Mississippi	410	5,199,388	0.36
Missouri	3,127	53,091,576	3.72
Montana	135	1,772,708	0.12
Nebraska	267	3,264,571	0.23
Nevada	393	6,128,293	0.43
New Hampshire	607	6,629,229	0.47
New Jersey	3,477	32,456,697	2.28
New Mexico	211	2,721,936	0.19
New York	10,656	152,902,253	10.73
North Carolina	2,020	24,458,427	1.72
North Dakota	114	1,159,230	0.08
Ohio	3,747	48,333,716	3.39
Oklahoma	510	8,326,533	0.58
Oregon	984	12,635,837	0.89
Pennsylvania	7,248	100,484,880	7.05
Rhode Island	496	8,894,135	0.62
South Carolina	466	6,454,463	0.45
South Dakota	98	1,025,349	0.07
Tennessee	5,192	50,664,931	3.55
Texas	5,004	61,878,610	4.34
Utah	471	8,025,720	0.56
Vermont	200	2,344,169	0.16
Virginia	3,639	42,783,718	3.00
Washington	1,076	16,481,400	1.16
West Virginia	320	3,659,945	0.26
Wisconsin	1,752	16,785,144	1.18
Wyoming	66	847,229	0.06
Other / Uncoded	<u>419</u>	<u>3,719,594</u>	<u>0.26</u>
Total	<u>124,192</u>	<u>\$1,425,520,807</u>	<u>100.00%</u>

**Distribution of the Student Loans by Guarantee Agency
(As of the Statistical Calculation Date)**

<u>Guarantee Agency</u>	<u>Number of Loans</u>	<u>Outstanding Principal Balance</u>	Percent of Pool by Outstanding Principal <u>Balance</u>
Great Lakes Higher Education Guaranty Corporation	117,956	\$1,370,847,646	96.16%
American Student Assistance	3,569	38,313,650	2.69
California Student Aid Commission	2,400	14,158,030	0.99
Texas Guaranteed Student Loan Corporation	<u>267</u>	<u>2,201,481</u>	<u>0.15</u>
Total	<u>124,192</u>	<u>\$1,425,520.807</u>	<u>100.00%</u>

Borrower Benefit Programs

We reduce the cost of financing education costs for our 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 program. The T.H.E. Bonus program utilizes certain amounts released from the indenture to make payments on behalf of borrowers under the T.H.E. Loan Program that are in active repayment and are not in default. We are 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 by the borrower. The T.H.E. Bonus program will be used only to the extent of amounts released from the indenture for such purpose or similar amounts released from other financings that we have entered into or may enter into in the future. Any such payment we make under the T.H.E. Bonus program will be deposited in the Collection Fund. We may change the scope of our current borrower benefits program or may choose to offer additional or different borrower benefit programs in the future.

Acquisition of Financed Student Loans

NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C. and NorthStar T.H.E. Funding III, L.L.C. (also referred to collectively herein as the “transferors”) will transfer student loans to us. Transfers are made in the form of a distribution of assets to us, as the sole member of the transferor. To allow the transferors to transfer the loans to us, we will apply a portion of the proceeds of the series 2004-1 notes deposited in the Acquisition Fund to the satisfaction of the applicable transferor’s debt obligations secured by those student loans.

The transfer of the student loans to us is without recourse against the transferor. Neither we nor the indenture 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 indenture trustee with good title to the student loans.

NorthStar Capital Markets Services, Inc. has agreed in a repurchase agreement in connection with its administration of our student loans that it 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 our purchase of those student loans. However, NorthStar

Capital Markets Services, Inc. may or may not have the financial resources to purchase all such student loans. Finally, this obligation will not cover any problem arising after our purchase of the student loan that was not caused by such action or failure to take such action.

Servicing and Due Diligence

We have covenanted in the indenture to cause a servicer to administer and collect all student loans pledged under the indenture in accordance with all applicable requirements of the Higher Education Act, the Secretary of Education, the indenture, and the guarantee agreements. Pursuant to a servicing agreement, the servicer will service student loans acquired by us pursuant to 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 student 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 originating 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, our 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 student loans, that guarantee agency’s ability to realize the benefits of federal reinsurance payments may be adversely affected.

The student loans are currently serviced on behalf of the transferors (and upon our acquisition of the student loans, will continue to be serviced on our behalf) by Great Lakes Educational Loan Services, Inc. See the caption “The Issuer—The Servicing Agreements” herein. All of the student loans presently pledged under the indenture have been serviced by Great Lakes Educational Loan Services, Inc. since their origination.

Description of the Guarantee Agencies

General

Substantially all of the student loans presently included in the trust estate established pursuant to the indenture and those that we expect to purchase on the closing date with the net proceeds of the series 2004-1 notes are guaranteed by Great Lakes Higher Education Guaranty Corporation. Under the indenture, eligible loans may be guaranteed by any guarantee agency,

and therefore, any student loans we acquire in the future may be 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 Federal Family Education Loan 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 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 the caption “Description of the Federal Family Education Loan Program” herein.

Information Relating to the Guarantee Agencies

The payment of principal and interest on all of our student loans will be guaranteed by designated guarantee agencies and will be reinsured by the United States Department of Education. The guarantee provided by each guarantee agency is an obligation solely of that guarantee agency and is not supported by the full faith and credit of the federal or any state government. However, the Higher Education Act provides that if the Secretary of Education determines that a guarantee agency is unable to meet its insurance obligations, the Secretary shall assume responsibility for all functions of the guarantee agency under its loan insurance program. For further information on the Secretary of Education’s authority in the event a guarantee agency

is unable to meet its insurance obligations see the caption “Description of the Federal Family Education Loan Program” herein.

We expect that substantially all of the student loans we will acquire with the proceeds of the series 2004-1 notes will be guaranteed by Great Lakes Higher Education Guaranty Corporation.

Presented below is information with respect to Great Lakes Higher Education Guaranty Corporation. Except as otherwise indicated, we obtained the information regarding Great Lakes Higher Education Guaranty Corporation from Great Lakes Higher Education Guaranty Corporation. We have not independently verified this information.

Great Lakes Higher Education Guaranty Corporation

Great Lakes Higher Education Guaranty Corporation (“GLHEGC”) is a Wisconsin nonstock, nonprofit corporation the sole member of which is Great Lakes Higher Education Corporation (“GLHEC”). GLHEGC’s predecessor organization, GLHEC, was organized as a Wisconsin nonstock, nonprofit corporation and began guaranteeing student loans under the Higher Education Act in 1967. GLHEGC is the designated guarantee agency under the Higher Education Act for Wisconsin, Minnesota, Ohio, Puerto Rico and the Virgin Islands. On January 1, 2002, GLHEC (and GLHEGC directly and through its support services agreement with GLHEC), transferred the majority of their student loan program guaranty support operations and personnel to Great Lakes Educational Loan Services, Inc. (“GLELSI”) a wholly owned subsidiary of GLHEC. GLHEGC continues as the “guaranty agency” as defined in Section 435(j) of the Higher Education Act and continues its default aversion, claim purchase and compliance, collection support and federal reporting responsibilities as well as custody and responsibility for all revenues, expenses and assets related to that status. GLHEGC (through its support services agreement with GLHEC) also performs oversight of all student loan program guaranty support operations transferred to GLELSI and supportive of GLHEGC’s “guaranty agency” responsibilities. The primary operations center for GLHEC and its affiliates (including GLHEGC and GLELSI) is in Madison, Wisconsin, which includes the data processing center and operational staff offices for both guaranty and servicing functions. GLHEC and affiliates also maintain regional offices in Columbus, Ohio and St. Paul, Minnesota and customer support staff located nationally. GLHEGC will provide a copy of GLHEC’s most recent consolidated financial statements on receipt of a written request directed to 2401 International Lane, Madison, Wisconsin 53704, Attention: Chief Financial Officer.

GLHEGC has entered into a voluntary flexible agreement with the U.S. Department of Education pursuant to the 1998 Reauthorization Amendments. Under GLHEGC’s agreement, which commenced October 1, 2000 and is currently effective through September 30, 2004, GLHEGC’s revenues are tied directly to default aversion performance. Certain sources of GLHEGC’s Operating Fund revenues are replaced by a single fee-for-service funding source tied directly to the percentage of delinquent loans that do not default during the measurement period. In lieu of statutory collection retention amounts, the U.S. Department of Education reimburses GLHEGC only for its actual post-default collection related expenses. This agreement also calls for GLHEGC to escrow the liquid assets of GLHEGC’s Federal Fund for the benefit of the U.S. Department of Education. GLHEGC may also engage in negotiations with lenders to define

whether the lender or GLHEGC will complete each of the due diligence requirements. Finally, this agreement allows GLHEGC to pilot a new approach to the claims review process, under which GLHEGC develops and implements with willing lenders and servicers a post-claim random sampling process that replaces the current claim-by-claim process. The GLHEGC agreement is automatically renewed for one-year effective periods, unless terminated 90 days prior to the end of an effective period (a pending amendment would make the agreement subject to termination by either party on ninety (90) days notice).

The information in the following tables has been provided to us from reports provided by or to the U.S. Department of Education and has not been verified by us, GLHEGC or the underwriters. No representation is made by us, GLHEGC or the underwriters as to the accuracy or completeness of this information. Prospective investors may consult the United States Department of Education Data Books and Web site <http://www.ed.gov/finaid/prof/resources/data/opeloanvol.html> for further information concerning GLHEGC or any other guarantee agency.

Guarantee Volume. GLHEGC's guaranty volume for each of the last five federal fiscal years, including Stafford, Unsubsidized Stafford, SLS, PLUS and Consolidation loan volume was as follows:

Federal Fiscal Year	Guaranty Volume (millions)
1999	\$1,736.0
2000	2,141.9
2001	2,246.7
2002	4,473.1
2003	8,721.3

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

Federal Fiscal Year	Cumulative Cash Reserves (millions)	Total Loans Outstanding* (millions)	Federal Guaranty Reserve Fund Level
1999	\$124.5	\$ 4,885	2.55%
2000	116.5	5,495	2.12
2001	116.4	5,494	2.12
2002	138.0	7,408	1.86
2003	158.0	12,618	1.25

* In accordance with Section 428(c)(9) of the Higher Education Act, does not include loans transferred from the former Higher Education Assistance Foundation, NorthStar Guarantee Inc., Ohio Student Aid Commission or Puerto Rico Higher Education Assistance Corporation. (Beginning in FFY 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.)

Claims Rate. For the past five federal fiscal years, GLHEGC's claims rate has not exceeded 5%, and, as a result, the highest allowance reinsurance has been paid on all GLHEGC's claims. The actual claims rates are as follows:

Fiscal Year	Claims Rate
1999	1.28%
2000	1.17
2001	1.46
2002	1.06
2003	1.27

Description of the Series 2004-1 Notes

General

We will issue the series 2004-1 notes pursuant to the terms of an indenture of trust, dated as of November 1, 2000, with U.S. Bank National Association, as indenture trustee and as eligible lender trustee, as amended and supplemented, including by a sixth supplemental indenture of trust, dated as of March 1, 2004, with the indenture trustee. The following summary describes some of the terms of the indenture and the series 2004-1 notes; however, it is not complete and is qualified in its entirety by the actual provisions of the indenture and the series 2004-1 notes.

Interest Payments

Interest will accrue on the series 2004-1 notes at their respective interest rates during each interest accrual period and, in the case of the LIBOR rate notes, will be payable to the holders of the LIBOR rate notes on each quarterly distribution date, commencing July 28, 2004.

Subsequent quarterly distribution dates for the LIBOR rate notes will be on the 28th of each January, April, July and October, or if any such day is not a business day, the next business day. Interest on the auction rate notes will be payable to the holders of the auction rate notes on the business day following the end of each auction period; however, if an auction period for a series of the auction rate notes is six months or longer, then the interest payment dates therefor shall be as determined by us with the consent of the applicable broker-dealer and the first business day immediately following the end of such interest period. Interest accrued but not paid on any distribution date will be due on the next distribution date together with an amount equal to interest on the unpaid amount at the applicable rate per annum described below. Any such shortfall will be allocated pro rata to the holders of the series 2004-1 notes, based on the total amount of interest due on each series of series 2004-1 notes.

The interest rate on the series 2004-1A-1 notes for each interest accrual period will be equal to three-month LIBOR, except for the initial interest accrual period, as determined on the second business day prior to such interest accrual period, plus 0.05%. The interest rate on the series 2004-1A-2 notes for each interest accrual period will be equal to three-month LIBOR, except for the initial interest accrual period, as determined on the second business day prior to such interest accrual period, plus 0.12%. The interest rate on the series 2004-1A-3 notes for each interest accrual period will be equal to three-month LIBOR, except for the initial interest accrual period, as determined on the second business day prior to such interest accrual period, plus 0.17%. The interest rate on the series 2004-1A-4 notes for each interest accrual period will be equal to three-month LIBOR, except for the initial interest accrual period, as determined on the second business day prior to such interest accrual period, plus 0.19%. LIBOR for the initial interest accrual period will be four-month LIBOR, as determined by the indenture trustee on the second business day prior to the closing date.

For each auction period, the auction rate for each series of the auction rate notes will be the least of the maximum auction rate, the maximum interest rate, one-month LIBOR plus 1.00%, the net loan rate, and the rate determined on the related auction date pursuant to the auction procedures described under the caption “Auction of the Auction Rate Notes” herein. However, the interest rates on the auction rate notes for the initial interest accrual periods will be determined by the underwriters prior to the closing date.

Calculation of LIBOR for the LIBOR Rate Notes

For each interest accrual period, LIBOR will be determined by the indenture trustee by reference to the London interbank offered rate for deposits in U.S. dollars having a maturity of three months which appears on Telerate Page 3750 as of 11:00 a.m., London time, on the related LIBOR determination date. The LIBOR determination date will be the second business day before the beginning of each interest accrual period. If this rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. dollars, having the relevant maturity and in a principal amount of not less than U.S. \$1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR determination date, to prime banks in the London interbank market by four major banks selected by the indenture trustee. The indenture trustee will request the principal London office of each bank to provide a quotation of its rate. If the banks provide at least two quotations, the rate for that day

will be the arithmetic mean of the quotations. If the banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by us, at approximately 11:00 a.m., New York time, on that LIBOR determination date, for loans in U.S. Dollars to leading European banks having the relevant maturity and in a principal amount of not less than U.S. \$1,000,000. If the banks selected as described above are not providing quotations, LIBOR in effect for the applicable interest accrual period will be LIBOR in effect for the previous accrual period.

Interest on the LIBOR rate notes will be calculated on the basis of the actual number of days elapsed during the interest accrual period divided by 360.

Outstanding principal balance of the LIBOR Rate Notes

The remaining outstanding balance of the LIBOR rate notes, after giving effect to distributions of principal, will be determined through use of a note pool factor. The pool factor for each series of the LIBOR rate notes will be a seven-digit decimal computed by us before each quarterly distribution date. Each pool factor will initially be 1.0000000. Thereafter, it will decline to reflect reductions in the outstanding balance of the LIBOR rate notes. Your portion of the aggregate outstanding balance of a series of the LIBOR rate notes will be the product of:

- the original denomination of your LIBOR rate note; and
- the applicable pool factor.

Holders of the LIBOR rate notes may receive reports periodically concerning various matters, including the payments we have received on our student loans, the pool balance, the applicable pool factor and various other items of information. See the caption “Summary of the Indenture—Further Covenants” herein.

Calculation of the Auction Rate

The initial auction date and the initial interest rate adjustment date for each series of the auction rate notes are set forth below:

<u>Series</u>	<u>Initial Auction Date</u>	<u>Initial Interest Rate Adjustment Date</u>
2004-1A-5	April 27, 2004	April 28, 2004
2004-1A-6	May 18, 2004	May 19, 2004
2004-1A-7	April 28, 2004	April 29, 2004
2004-1A-8	May 11, 2004	May 12, 2004
2004-1B-1	May 4, 2004	May 5, 2004

For each auction period, the interest rate for the series of the auction rate notes will be the least of:

- the rate determined pursuant to the auction procedures described under the caption “Description of the Series 2004-1 Notes—Auction Rate Notes” herein;

- the maximum auction rate, which is based on the 91-day United States Treasury bill rate for a one-year period plus a margin ranging from 1.20% (if the series of the auction rate notes is rated AAA/Aaa) to 1.75% (if the series of the auction rate notes is rated below A-/A3);
- the sum of (a) one-month LIBOR and (b) 1.00%;
- the maximum interest rate, which is equal to the lesser of:
 - 18%; and
 - the highest rate permitted by law; and
- if (a) the auction rate for a series of the auction rate notes exceeded the sum of the 91-day United States Treasury bill rate plus 1.0% for the preceding six consecutive auction dates or (b) one-month LIBOR exceeded the 90-day commercial paper rate by more than 0.30% on each of the preceding six consecutive auction dates, the net loan rate described under the caption “Summary of Terms—Description of the Series 2004-1 Notes—Auction Rate Notes” herein.

Interest on the auction rate notes will accrue daily and will be computed for the actual number of days elapsed on the basis of a year consisting of 360 days.

After the initial auction period, the period between auctions for the auction rate notes will generally be 28 days, subject to adjustment if the auction period would begin or end on a non-business day. The length of the auction period, the auction date or the nature of the interest rate for any series of the auction rate notes may change as described under the caption “Auction of the Auction Rate Notes—Change in Auction Terms” herein.

If, on the first day of any auction period, a payment default on the auction rate notes has occurred and is continuing, the rate for the interest accrual period will be the non-payment rate, which generally is one-month LIBOR plus 1.50%.

If in any auction all the auction rate notes of a series subject to the auction are subject to hold orders, the interest rate for the accrual period will equal the all hold rate, which is the LIBOR rate for a period comparable to the auction period less 0.25%.

Interest accrued on the outstanding principal balance of a series of the auction rate notes during the preceding auction period will be paid on the related auction rate distribution 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 the series 2004-1 notes exceed the amount permitted by applicable law. If applicable law is ever judicially interpreted so as to render usurious any amount called for under the series 2004-1 notes of a series or related documents or otherwise contracted for, charged, reserved, taken or received in connection with the series 2004-1 notes of such series, or if the redemption or

acceleration of the maturity of the series 2004-1 notes of such series results in payment to or receipt by the holder or any former holder of the series 2004-1 notes of such series of any interest in excess of that permitted by applicable law, then, notwithstanding any provision of the series 2004-1 notes of such series or related documents to the contrary, all excess amounts theretofore paid or received with respect to the series 2004-1 notes of such series shall be credited on the principal balance of the series 2004-1 notes of such series (or, if the series 2004-1 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 2004-1 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 2004-1 notes of such series and under the related documents.

Under current Delaware law, there is no restriction on the interest rate that may be charged for the lending of money evidenced by the series 2004-1 notes.

Redemption of the Series 2004-1 Notes

Optional Redemption of the LIBOR Rate Notes. The series 2004-1A-1 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after October 29, 2007 (the date on which the targeted balance on the series 2004-1A-1 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date. The series 2004-1A-2 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after April 28, 2010 (the date on which the targeted balance on the series 2004-1A-2 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date. The series 2004-1A-3 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after January 30, 2012 (the date on which the targeted balance on the series 2004-1A-3 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date. The series 2004-1A-4 notes are subject to optional redemption in whole, at our option, on any quarterly distribution date on or after April 28, 2014 (the date on which the targeted balance on the series 2004-1A-4 notes is expected to be zero), at a redemption price of 100% of the principal amount of such LIBOR rate notes to be redeemed, plus accrued interest thereon to the redemption date.

Optional Redemption of the Auction Rate Notes. At our option but subject to compliance with the conditions described under “*Limitation on Redemption of Subordinate Notes*” below, auction rate notes of any series may be redeemed on any auction rate distribution date for such series, in whole or in part, and if in part as described under the caption “*Selection of Series 2004-1 Notes for Redemption*” below, at a redemption price of 100% of the principal amount of such action rate notes to be redeemed, plus accrued interest thereon to the redemption date. To the extent auction rate notes are optionally redeemed, any carry-over amounts accrued on the auction rate notes being optionally redeemed will be extinguished on such optional redemption date.

Principal Distributions on the LIBOR Rate Notes. Principal distributions will be made on the LIBOR rate notes as described under the caption “Sources and Security for Payment of the Notes—Debt Service Fund—*Retirement Account*” herein.

Mandatory Redemption of the Auction Rate Notes. The auction rate notes of any series are subject to mandatory redemption on any auction rate distribution date from revenues deposited to the Collection Fund to the extent we direct which are in excess of amounts necessary to pay or provide for the payment of the administrative allowance, the marketing and school services expense allowance and the 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 the caption “Description of the Indenture—Funds and Accounts—*Collection Fund*” herein. The auction rate notes of each series selected for redemption (see the caption “*Selection of Series 2004-1 Notes for Redemption*” below) shall be redeemed on the first auction rate distribution date for that series for which the indenture 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. To the extent auction rate notes are mandatorily redeemed, any carry-over amounts accrued on the auction rate notes being mandatorily redeemed will be extinguished on such mandatory redemption date.

Revenues deposited to the Collection Fund in any monthly collection period will be applied to the redemption of auction rate notes only to the extent that amounts are available for such purpose on the next monthly calculation date.

The supplemental indenture providing for the issuance of the series 2004-1 notes 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 2004-1 notes .

Selection of Auction Rate Notes for Redemption. If less than all outstanding auction rate notes are to be redeemed, we will determine the particular series to be redeemed. If less than all outstanding auction rate notes of a given series are to be redeemed, the particular auction rate notes to be redeemed will be determined by lot.

Limitation on Redemption of Subordinate Notes. No subordinate notes, including the series 2004-1B-1 notes, may be redeemed so long as there are any senior notes outstanding under the indenture unless we receive confirmation from each rating agency that such redemption will not cause the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes; however, we are required to pay the subordinate notes at their stated maturities.

Notice and Effect of Redemption

Notice of redemption of the auction rate 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 The Depository Trust Company or its nominee) of auction rate 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 auction

rate notes not affected by such defect or failure. All notices of redemption shall state: (a) the redemption date; (b) the redemption price; (c) the name (including series designation), stated maturity and CUSIP numbers of the auction rate notes to be redeemed, the principal amount of auction rate notes of each series to be redeemed, and, if less than all outstanding auction rate notes of such series are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the auction rate notes to be redeemed; (d) that, on the redemption date, the redemption price of and accrued interest on each such auction rate note will become due and payable and interest thereon shall cease to accrue on and after such date; (e) the place or places where such auction rate notes are to be surrendered for payment of the redemption price thereof and accrued interest thereon; and (f) if it be the case, that such auction rate notes are to be redeemed by the application of certain specified trust moneys and for certain specified reasons.

On or prior to each quarterly distribution date on which principal payments will be made on the LIBOR rate notes or on which the LIBOR rate notes are to be redeemed, the indenture trustee shall cause notice of any such payments or redemption be given by mailing a copy of the notice by first class mail to the holders of the series of the LIBOR rate notes designated for payment or redemption, in whole or in part, at their address as the same shall last appear upon the registration books on such date; provided, however, that failure to give such notice, or any defect therein, shall not affect the validity of any proceedings for the payment or redemption of such LIBOR rate notes.

Notice of redemption having been given as provided above, the series 2004-1 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 2004-1 notes shall cease to accrue interest.

Source of Payment and Security for the Notes

General

The notes, including the series 2004-1 notes, are limited obligations 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: (a) payments of interest and principal made by obligors of student loans; (b) guarantee payments made by the guarantee agencies with respect to defaulted student loans; (c) 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 the student loans (excluding any special allowance payments and interest subsidy payments accrued prior to our purchase of the related student loan); (d) income from investment of moneys in the pledged funds and accounts established pursuant to the indenture; (e) payments from a swap counterparty under a swap agreement; (f) proceeds of any sale or assignment of any student loans pledged under the indenture; and (g) 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 of our rights, title, interest and privileges (a) with respect to student loans pledged under the indenture, in, to and under any servicing agreement, the eligible lender trust agreement, any repurchase agreement and the guarantee agreements; (b) in, to and under all student loans pledged under the indenture (including the evidences of indebtedness thereof and related documentation); (c) 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 (d) 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 established pursuant to the indenture. The security interest in revenues, moneys, evidences of indebtedness and, unless registered in the name of the indenture trustee, securities payable into the various funds and accounts established pursuant to the indenture does not constitute a perfected security interest until such revenues, moneys, evidences of indebtedness and securities are received by the indenture trustee. Certain pledged revenues are subject to withdrawal from the pledged funds and accounts, to prior applications to pay costs of issuance, the administrative allowance, the marketing and school services expense allowance and the note fees, and to certain other applications as described under the caption “Description of the Indenture—Funds and Accounts” herein.

Additional Indenture Obligations

There are presently outstanding under the indenture, \$110,000,000 of Student Loan Asset Backed Notes, Series 2000, of which \$100,500,000 constituted senior notes and \$9,500,000 constituted subordinate notes, and \$430,000,000 of Student Loan Asset Backed Notes, Series 2002, of which \$393,000,000 constituted senior notes and \$37,000,000 constituted subordinate notes, all of which remain outstanding.

The series 2004-1 notes will constitute “additional notes” under the indenture, with the series 2004-1A notes being senior notes and the Series 2004-1B-1 notes being subordinate notes. The indenture provides that in the future, upon the satisfaction of certain conditions, we may issue one or more series of additional notes thereunder. Such additional notes may be issued as senior notes on a parity basis with any other senior notes (including the series 2004-1A notes) or as subordinate notes on a parity basis with any other subordinate notes (including the series 2004-1A 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, we may enter into swap agreements and may obtain credit enhancement facilities from one or more credit facility providers. Our obligations under the swap agreements, and our 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 obligations, together with the senior notes, being referred to herein as “senior obligations”) or parity obligations with the subordinate notes (such other 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 the caption “Description of the Indenture—Notes and Other Indenture Obligations” herein.

Under the indenture, we may not enter into a swap agreement or obtain a credit enhancement facility unless the indenture 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. We have covenanted not enter into any swap agreements unless we reasonably determine, on the date we enter into such swap agreement, that such swap agreement will not adversely affect the sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth under the caption “Debt Service Fund—*Retirement Account*” below.

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 series, payable from any revenues available to pay such other indenture obligations. There are presently no credit enhancement facilities, and no credit enhancement facility is being obtained with respect to the series 2004-1 notes.

Priorities

The senior notes (and any other senior obligations, including the series 2004-1A notes) are entitled to payment and certain other priorities over the subordinate notes (and any other subordinate obligations, including the series 2004-1B-1 notes). This subordination is intended to enhance the likelihood of regular receipt of the interest and principal by the holders of the senior notes, including the series 2004-1A notes, and any other senior 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 obligations, including the series 2004-1B-1 notes) 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 obligations. So long as any senior 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 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 obligations. In addition, holders of senior notes and beneficiaries of other senior obligations are entitled to direct certain actions to be taken by the indenture trustee prior to and upon the occurrence of an event of default under the indenture, including election of remedies. See the caption “Description of the Indenture—Remedies” herein.

Flow of Funds

On each monthly calculation date, the indenture trustee will transfer or allocate the moneys received during the preceding month in the Collection Fund as follows:

- *first*, to make any payments required under a joint sharing agreement;
- *second*, to make any payments due and payable by us 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 Interest Account, the amount necessary to provide for the payment of interest accruing or coming due during the next month on any senior notes at the time outstanding and the payment of any other senior obligations under the indenture (excluding termination payments due under senior swap agreements) payable therefrom as described under the caption “Summary of the Indenture—Funds and Account—*Interest Account*” herein;
- *fifth*, to the Principal Account, the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption) on the senior notes or for the reimbursement of senior credit facility providers for the payment of principal on the senior notes, an amount equal to one-twelfth of such principal coming due within the next 12 months on any senior notes at the time outstanding (there being no such deposits required with respect to the series 2004-1A notes until February 25, 2010) as described under the caption “Summary of the Indenture—Funds and Account—*Principal Account*” herein;
- *sixth*, to the Interest Account, the amount necessary to provide for the payment of interest accruing or coming due during the next month on any subordinate notes at the time outstanding and the payment of any other subordinate obligations under the indenture (excluding termination payments due under subordinate swap agreements) payable therefrom as described under the caption “Summary of the Indenture—Funds and Account—*Interest Account*” herein;
- *seventh*, to the Principal Account, the amount necessary to provide for the payment of principal coming due (at maturity or pursuant to mandatory sinking fund redemption) on the subordinate notes or for the reimbursement of senior credit facility providers for the payment of principal on the subordinate notes, an amount equal to one-twelfth of such principal coming due within the next 12 months on any subordinate notes at the time outstanding (there being no such deposits required with respect to the series 2004-1B-1 notes until January 25, 2044) as described under the caption “Summary of the Indenture—Funds and Account—*Principal Account*” herein;
- *eighth*, to the Reserve Fund, the amount necessary to reach its required balance;

- *ninth*, to the Interest Account, the amount necessary to provide for the payment of interest on junior subordinate notes;
- *tenth*, to the Principal Account, 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 one-twelfth of such principal coming due within the next 12 months on any junior subordinate notes at the time outstanding;
- *eleventh*, to the Retirement Account for the distribution of principal with respect to notes which by their terms are subject to scheduled principal distributions, an amount sufficient to make any monthly deposit required for the next scheduled principal distribution (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 such notes are issued); provided, however, if we failed to make in full any of the scheduled principal payments on the notes on the prior Quarterly Distribution Date, the amount transferred pursuant to this paragraph *eleventh* shall include an amount equal to the amount of the scheduled principal payment we failed to pay, unless such amount has been previously transferred pursuant to this paragraph *eleventh*;
- *twelfth*, to pay an amount equal to the T.H.E. Bonus Deposit through July 1, 2006 (unless extended or amended as to timing or amount as provided in the indenture), unless there exists unpaid carry-over amounts;
- *thirteenth*, to the Retirement Account for the distribution of principal with respect to notes which by their terms are subject to scheduled principal distributions, an amount sufficient to make the next scheduled principal distribution on such notes (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 such notes are issued), less any amounts previously transferred pursuant to paragraph *eleventh* above;
- *fourteenth*, until the senior asset percentage has been satisfied, all remaining amounts shall be transferred, as we shall designate, either (a) 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 such notes are issued) or (b) during the revolving period, to the Acquisition Fund to acquire or originate additional student loans;
- *fifteenth*, to the Interest Account, the amount necessary for the payment of carry-over amounts and interest thereon with respect to senior notes;
- *sixteenth*, to the Interest Account, except as described under the caption “Suspension of Payments on Subordinate Obligations” below, the amount necessary for the payment of carry-over amounts and interest thereon with respect to subordinate notes;

- *seventeenth*, to the Interest Account, except as described under the caption “Suspension of Payments on Subordinate Obligations” below, the amount necessary for the payment of carry-over amounts and interest thereon with respect to junior subordinate notes;
- *eighteenth*, to the Interest Account, the amount necessary for the payment of termination payments due under senior swap agreements;
- *nineteenth*, to the Interest Account, the amount necessary for payment of termination payments due under subordinate swap agreements;
- *twentieth*, during the revolving period and only at our direction, to the Acquisition Fund to acquire or originate additional student loans;
- *twenty-first*, only at our direction, 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 such notes are issued); and
- *twenty-second*, to us if after taking into account any such release (a) the senior asset percentage will not be less than 105.00%, and the subordinate asset percentage will not be less than 100.75% or such greater percentages or amounts as may be required by the rating agencies and (b) the aggregate value of all assets pledged under the indenture, less the principal amount of all notes outstanding will exceed \$100,000 after such release.

Amounts remaining in the Collection Fund after the transfers or allocations described above shall remain in the Collection Fund and will be available for transfer or allocation on the next succeeding monthly calculation date.

Any amounts required to be transferred to the Interest Account of the Debt Service Fund on any monthly calculation date may be held in the Collection Fund instead of the Debt Service Fund if the senior asset percentage was at least equal to 102% as of the end of the month preceding such monthly calculation date and any amounts required to be transferred to the Principal Account of the Debt Service Fund may be held in the Collection Fund instead of the Debt Service Fund if the senior asset percentage was at least equal to 105% as of the end of the month preceding such monthly calculation date.

We receive a monthly administrative allowance equal to one-twelfth of 0.50% of the ending principal balance of the financed student loans, plus accrued interest, during the preceding month, which is used to pay the servicing fees to our servicers, and a monthly marketing and school services expense allowance equal to one-twelfth of 0.10% of the ending balance of the financed student loans, plus accrued interest, during the preceding month.

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, premium, if any, and interest on the notes, the purchase price of notes, other indenture obligations and carry over amounts (including any accrued interest thereon).

Interest Account. With respect to each series of notes on which interest is paid no less frequently than every 60 days, the indenture trustee will deposit to the Interest Account on each monthly calculation date an amount equal to the interest that will become payable on those 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 indenture trustee will make equal monthly deposits to the Interest Account on each monthly calculation date preceding each interest payment date, to aggregate the full amount of the interest due on that interest payment date.

With respect to notes that bear interest at a variable rate, for which any such amount cannot be determined on a monthly calculation date, the indenture trustee will make a deposit based upon assumptions set forth in the related supplemental indenture.

Each deposit required by the preceding paragraphs will be made by transfer from the following funds, in the following order of priority: the Collection Fund, the Capitalized Interest Fund, the Reserve Fund and, as to senior notes and other senior obligations only, the Acquisition Fund (other than the portion thereof representing 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, the indenture trustee will transfer to the Interest Account (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) an amount equal to that carry-over amount (including any accrued interest thereon) so due and payable.

Principal Account. To provide for the payment of principal due on the stated maturity of notes, the indenture trustee will make equal monthly deposits to the Principal Account on each of the twelve monthly calculation dates preceding the date that payment is due, to aggregate the full amount of that payment.

These deposits will be made by transfer from the following funds in the following order of priority (after transfers to the Interest Account required on the date of any such transfer as

described under “*Interest Account*” above): the Collection Fund, the Capitalized Interest Fund, the Reserve Fund, and, as to senior notes and other senior obligations only, the Acquisition Fund (other than the portion thereof representing student loans).

Retirement Account. All notes that are to be redeemed, or with respect to which principal distributions are to be made, other than at their stated maturity, will be redeemed or paid with moneys deposited to the Retirement Account.

We anticipate making principal distributions on the LIBOR rate notes on each quarterly distribution date set forth on the tables below, in the amounts necessary to reduce the aggregate outstanding principal amount of each series of the LIBOR rate notes to the respective targeted balances set forth in the table below for such quarterly distribution date:

Series 2004-1A-1 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
July 2006	\$90,000,000
October 2006	73,000,000
January 2007	55,000,000
April 2007	37,000,000
July 2007	19,000,000
October 2007	-0-

Series 2004-1A-2 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
January 2008	\$206,000,000
April 2008	186,000,000
July 2008	166,000,000
October 2008	146,000,000
January 2009	124,000,000
April 2009	99,000,000
July 2009	74,000,000
October 2009	49,000,000
January 2010	24,000,000
April 2010	-0-

Series 2004-1A-3 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
April 2010	\$197,000,000
July 2010	168,000,000
October 2010	139,000,000
January 2011	109,000,000
April 2011	79,000,000
July 2011	49,000,000
October 2011	19,000,000
January 2012	-0-

Series 2004-1A-4 Notes

<u>Quarterly Distribution Date in</u>	<u>Targeted Balance</u>
January 2012	\$217,000,000
April 2012	192,000,000
July 2012	167,000,000
October 2012	142,000,000
January 2013	117,000,000
April 2013	92,000,000
July 2013	67,000,000
October 2013	42,000,000
January 2014	20,000,000
April 2014	-0-

Those principal distributions will be made only to the extent there are sufficient available funds for that purpose as described under the caption “Flow of Funds” above. If available funds are not sufficient to meet the amortization schedules set forth above for a series of the LIBOR rate notes on any quarterly distribution date, the scheduled principal distribution for such series of the LIBOR rate notes for the next quarterly distribution date will be increased by the amount of the shortfall. If scheduled principal distributions are due for more than one series of the LIBOR rate notes, the available funds will be allocated, *first*, to the series 2004-1A-1 notes, *second*, to the series 2004-1A-2 notes, *third*, to the series 2004-1A-3 notes and, *fourth*, to the series 2004-1A-4 notes.

We are permitted to issue additional notes with principal distributions which are payable prior to, or concurrently with, the principal distributions on the LIBOR rate notes, and additional notes with stated maturities (or mandatory sinking fund payments) which are payable prior to, or concurrently with, the principal distributions on the LIBOR rate notes, if we reasonably determine, on the date of issuance of such additional notes, that the issuance of such additional notes will not adversely affect the sufficiency of the amounts directed to make principal

distributions on the LIBOR rate notes in accordance with the targeted balances set forth above. Also, we have covenanted not to sell any student loans within the trust estate unless we reasonably determine, on the date of such sale, that the sale of such student loans will not adversely affect the sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth above.

Principal distributions on each series of LIBOR rate notes will be made on a pro rata basis to the holders thereof and after each principal payment each LIBOR rate note will be outstanding in a fractional amount of its original principal amount. See the caption “Description of the Series 2004-1 Notes—Outstanding principal balance of the LIBOR Rate Notes” herein.

So long as any LIBOR rate notes are outstanding, on each monthly calculation date the indenture trustee will transfer to the Retirement Account pursuant to priority *Eleventh* under the caption “Flow of Funds” above (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) an amount equal to the amount determined by the following formula:

$$TA = [(TB) \times (F/3)] - RAB$$

Where

TA = Amount to be transferred to the Retirement Account on the monthly calculation date

TB = Excess, if any, of the aggregate outstanding principal balance of each series of LIBOR rate notes immediately prior to the monthly calculation date less the aggregate targeted balance of each series of LIBOR rate notes set forth above for the next quarterly distribution date or, if such monthly calculation date is also a quarterly distribution date, the targeted balance for that quarterly distribution date.

F = 1 for the first monthly calculation date occurring in an interest accrual period, starting in May of 2006, 2 for the second monthly calculation date occurring in an interest accrual period and 3 for the third monthly calculation date occurring in an interest accrual period.

RAB = Amount on deposit in the Retirement Account immediately prior to such monthly calculation date.

If we failed to make in full any of the scheduled principal payments on the notes on the prior quarterly distribution date, the amount transferred pursuant to paragraph *Eleventh* under the caption “Flow of Funds” above (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) shall, in addition to amounts set forth above, include an amount equal to the amount of the scheduled principal payment we failed to pay, unless such amount has been previously transferred pursuant to paragraph *Eleventh* under the caption “Flow of Funds” above.

After the payment of the T.H.E. Bonus Deposit, if any, on each monthly calculation date, the indenture trustee will transfer to the Retirement Account pursuant to priority *Thirteenth* under the caption “Flow of Funds” above (to the extent amounts are available in the Collection Fund, after taking into account all prior application of moneys therein on that monthly calculation date) the remaining amount necessary to make the next scheduled principal distribution on the LIBOR rate notes.

So long as any LIBOR rate notes are outstanding, on each quarterly distribution date the indenture trustee will use amounts on deposit in the Retirement Account to pay principal on each series of the LIBOR rate notes up to the amount needed to reduce their outstanding principal balance to their targeted balance listed under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein for that quarterly distribution date.

On each quarterly distribution date, the indenture trustee will use amounts on deposit in the Retirement Account to pay principal on the series 2004-1A-1 notes up to the amount needed to reduce their outstanding principal balance to their targeted balance listed under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein for that quarterly distribution date. On each quarterly distribution date on and after the quarterly distribution date on which the outstanding principal balances of the series 2004-1A-1 notes are reduced to zero, the indenture trustee will use amounts on deposit in the Retirement Account to pay principal on the series 2004-1A-2 notes up to the amount needed to reduce their outstanding principal balance to their targeted balance listed under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein for that quarterly distribution date. On each quarterly distribution date on and after the quarterly distribution date on which the outstanding principal balances of the series 2004-1A-1 notes and the series 2004-1A-2 notes are reduced to zero, the indenture trustee will use amounts on deposit in the Retirement Account to pay principal on the series 2004-1A-3 senior notes up to the amount needed to reduce their outstanding principal balance to their targeted balance listed under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein for that quarterly distribution date. On each quarterly distribution date on and after the quarterly distribution date on which the outstanding principal balances of the series 2004-1A-1 notes, the series 2004-1A-2 notes and the series 2004-1A-3 notes are reduced to zero, the indenture trustee will use amounts on deposit in the Retirement Account to pay principal on the series 2003A-4 senior notes up to the amount needed to reduce their outstanding principal balance to their targeted balance listed under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein for that quarterly distribution date. Failure to pay principal on a LIBOR rate note to its targeted balance listed under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein for that quarterly distribution date shall not be an event of default under the indenture.

If a series of the LIBOR rate notes is allocated some or all of the principal distribution amount on a monthly calculation date, that series of the LIBOR rate notes will be paid that amount, together with any the other monthly principal distributions allocated to such series of the LIBOR rate notes, on the next succeeding quarterly distribution date.

If a series of the auction rate notes is allocated some or all of the principal distribution amount on a monthly calculation date, that amount will be used to redeem such series of the auction rate notes on the next auction rate distribution date for such series for which a notice of redemption can be given.

Balances in the Retirement Account may also be applied by us to the purchase of notes at a purchase price not to exceed the principal amount thereof, plus accrued interest thereon, plus any applicable premium thereon, if there is currently no deficit in the Debt Service Fund.

Suspension of Payment on Subordinate Obligations

As long as any senior notes or any subordinate notes remain outstanding under the indenture, the payments described under the caption “Flow of Funds” above will be modified if, after giving effect to the payments on any payment date, either:

- the senior asset percentage described herein 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 described herein 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 and the notes have been accelerated under the indenture (in which event amounts will be applied as described under the caption “Description of the Indenture—Remedies” herein).

Any such deferral of payments on the 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 2004-1B-1 notes and any other obligations subordinate to the 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 under the caption “Suspension of Payments on Subordinate Obligations” above 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; however, no subordinate notes may be redeemed so long as there are any senior notes outstanding under the indenture unless we receive confirmation from each rating agency that such redemption will not cause the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes, except at their stated maturities. See the caption “Description of the Series 2004-1 Notes—Redemption of the Series 2004-1 Notes—*Limitations on the Redemption of Subordinate Notes*” herein. See also the caption “Priorities” above and the

caption “Description of the Indenture—Funds and Accounts” herein for a further description of the payment priorities on the notes.

Revolving Period

Prior to the termination of the revolving period, certain revenues that otherwise would be required to be used to redeem or make principal distributions with respect to notes may instead, at our direction, be transferred to the Acquisition Fund and used to acquire or originate additional eligible Student Loans. The revolving period will terminate on July 1, 2006 or such other date as we 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

The series 2004-1 notes (and all other senior notes and subordinate notes issued pursuant to the indenture) will be additionally secured by the Reserve Fund in an amount equal to the required balance for the Reserve Fund. We will make a deposit to the Reserve Fund from the proceeds of the sale of the series 2004-1 notes in the amount of \$6,150,000. We have previously deposited \$5,400,000 into the Reserve Fund in connection with the issuance of the notes already outstanding pursuant to the indenture. Amounts in the Reserve Fund will be supplemented monthly, if necessary, as described under the caption “Flow of Funds” above to increase the amount therein to the required balance, and otherwise upon the issuance of any future additional notes to the extent provided in a supplemental indenture. The required balance in the Reserve Fund is equal to the greater of:

- 0.75% of the outstanding principal amount of the notes;
- or \$1,000,000,

or such lesser amount permitted with a rating agency. Thus, the required balance in the Reserve Fund may be reduced in connection with the reduction of the outstanding principal amount of notes or upon our receipt of a written confirmation from each rating agency that such reduction will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes. See the caption “Description of the Indenture—Funds and Accounts—*Reserve Fund*” herein. Funds on deposit in the Reserve Fund in excess of the required balance will be transferred to the Collection Fund.

Auction of the Auction Rate 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 auction rate notes.

Summary of Auction Procedures

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

The interest rate on each series of the auction rate notes will be determined periodically (generally, for periods ranging from seven days to one year, and initially 28 days for the auction rate 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 auction rate 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 auction rate notes.

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

- (a) *Bid Order.* The minimum interest rate that a current investor is willing to accept in order to continue to hold some or all of its auction rate notes for the upcoming interest period;
- (b) *Sell Order.* An order by a current investor to sell a specified principal amount of auction rate notes, regardless of the upcoming interest rate;
- (c) *Hold Order.* An order by a current investor to hold a specified principal amount of auction rate notes, regardless of the upcoming interest rate; and
- (d) *Potential Bid Order.* The minimum interest rate that a potential investor (or a current investor wishing to purchase additional auction rate notes) is willing to accept in order to buy a specified principal amount of auction rate notes.

If an existing investor does not submit orders with respect to all its auction rate 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, auction rate 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 auction rate notes.

Assumptions:

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

Summary of All Orders received for the Auction:

Bid Orders	Sell Orders	Potential Bid Orders
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%	<u>100 Units Sell</u>	50 Units of 6.05%
100 Units at 6.10%	200 Units	50 Units of 6.10%
<u>100 Units at 6.12%</u>		50 Units of 6.11%
300 Units		50 Units of 6.14%
		<u>100 Units of 6.15%</u>
		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:

Order Number	Number Of Units	Cumulative Total (Units)	Interest Rate	Order Number	Number of Units	Cumulative Total (Units)	Interest Rate
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 as described under the caption “Auction Procedures—*Sufficient Bids*” below. 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 auction rate 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 auction rate notes in an auction are subject to hold orders (i.e.,

each holder of auction rate notes wishes to continue holding its auction rate notes, regardless of the interest rate), the interest rate for the upcoming interest period will equal the all hold rate.

We 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 caption is a more detailed description of these procedures.

Auction Participants

Existing Holders and Potential Holders. Participants in each auction will include: (a) “existing holders,” which shall include any person (including a broker-dealer) who is a holder of auction rate notes in the records of the auction agent (described below) at the close of business on the business day preceding each auction date and (b) “potential holders,” which shall include any person (including a broker-dealer), including any existing holder, who may be interested in acquiring the auction rate notes (or, in the case of an existing holder, an additional principal amount of the auction rate notes). See the caption “*Broker-Dealer*” below.

By purchasing auction rate notes, whether in an auction or otherwise, each purchaser of auction rate 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 supplemental indenture providing for the issuance of the auction rate notes; (ii) to have its beneficial ownership of the auction rate 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 auction rate 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 auction rate 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 auction rate 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 auction rate notes is maintained in book-entry form, an existing holder may sell, transfer or otherwise dispose of the auction rate notes only pursuant to a bid (as described below) or a sell order (as described below) in an auction, or otherwise sell, transfer or dispose of auction rate 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 auction rate notes so transferred, or its participant or broker-dealer, advises the auction agent of such transfer.

The principal amount of the auction rate notes purchased or sold may be subject to proration procedures on the auction date. Each purchase or sale of the auction rate 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 auction distribution 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. Deutsche Bank Trust Company Americas (formerly Bankers Trust Company) is appointed in the supplemental indenture providing for the issuance of the auction rate notes as the initial auction agent to serve as agent for us in connection with auctions with respect to the auction rate notes. We will enter into an auction agent agreement relating to series 2004-1 notes with the indenture trustee and Deutsche Bank Trust Company Americas 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 indenture 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 supplemental indenture providing for the issuance of the auction rate notes and the auction agent agreement. The auction agent may at any time resign and be discharged of the duties and obligations created by the supplemental indenture providing for the issuance of the auction rate notes by giving at least 90 days' notice to us and to the indenture trustee and each market agent. The auction agent may be removed at any time by the indenture trustee upon our written direction or the written direction of the holders of 66-2/3% of the aggregate principal amount of the series 2004-1A notes of all series then outstanding which constitute auction rate notes (or if there are no series 2004-1A notes outstanding which constitute auction rate notes, the holders of 66-2/3% of the aggregate principal amount of the series 2004-1B-1 notes), and, if by such holders, by an instrument signed by such holders or their attorneys and filed with us and with the auction agent and the indenture 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 us and the indenture trustee and each market agent in writing that it has not received payment of any auction agent fee due it in accordance with the terms of the auction agent agreement, the auction agent does not receive such payment.

If the auction agent 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 indenture trustee, at our direction, shall use its best efforts to appoint a substitute auction agent.

The auction agent is acting as our agent 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.

We are required to pay the auction agent the auction agent fee on each auction 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. We are also required to 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 Banc of America Securities LLC, Citigroup Global Markets Inc. and Deutsche Bank Securities Inc. which initially will be the broker-dealers, or any other broker or dealer (each as defined in the Securities Exchange Act of 1934), commercial bank or other entity permitted by law to perform the functions required of a broker-dealer set forth below which (a) is a participant or an affiliate of a participant in The Depository Trust Company, (b) has been selected by us as such with respect to such series of auction rate notes and (c) 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 us, on each auction date. Such broker-dealer fee is payable from the Administration Fund.

A broker-dealer may submit orders in auctions for its own account. 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. Banc of America Securities LLC will initially be the market agent. Although Banc of America Securities LLC is acting as an underwriter in connection with the initial offering of the series 2004-1 notes, it will act solely as our agent when acting as the market agent in connection with the auction rate 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 supplemental indenture providing for the issuance of the auction rate notes, auctions to establish the auction rate for the auction rate notes will be held on each auction rate, except as described under "Description of Series 2004-1 Notes—Interest Rate

on the Series 2004-1 Notes,” by application of the auction procedures described herein. Such procedures are to be applicable separately to each series of the auction rate notes. The term “auction date” means, initially, with respect to each series of the auction rate notes, the dates set forth under the caption “Summary of Terms—Interest Rates and Payments—*Auction Rate Notes*” herein, and, thereafter, with respect to each such series of the auction rate notes, the business day immediately preceding the first day of each related auction period, other than: (a) an auction period commencing after the ownership of such series is no longer maintained in book-entry form; (b) an auction period commencing after the occurrence and during the continuance of a payment default; or (c) 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 under the caption “Changes in Auction Terms” below.

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 auction rate notes is no longer maintained in book-entry form, the indenture trustee will calculate the maximum rate on the business day immediately preceding the first day of each interest period commencing after delivery of definitive auction rate notes. If a payment default has occurred, the indenture trustee will calculate the non-payment rate on the interest rate determination date for (a) each interest period commencing after the occurrence and during the continuance of such payment default and (b) 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 auction rate notes is no longer maintained in book-entry form, or if a payment default has occurred, then the indenture trustee shall determine the applicable LIBOR-based rate for each such interest period. The determination by the indenture 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.

We will determine on each auction date whether the net loan rate restriction period is applicable for the next auction period and, if it is, we will notify the indenture trustee, the auction agent and each broker-dealers of such event. If the net loan rate restriction period is applicable for an auction period, we will calculate the net loan rate, the adjusted student loan portfolio rate of return and the program expense percentage, and shall notify the indenture trustee, the auction agent and each broker-dealers of such calculations.

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:

- (a) each existing holder of auction rate notes may submit to a broker-dealer by telephone or otherwise information as to: (i) the principal amount of outstanding auction rate 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 auction rate 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 auction rate 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

(b) one or more broker-dealers may contact potential holders to determine the principal amount of auction rate 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 described under the caption “*Validity of Orders*” below, a bid by an existing holder will constitute an irrevocable offer to sell: (a) the principal amount of outstanding auction rate notes specified in such bid if the auction rate will be less than the rate specified in such bid; (b) such principal amount or a lesser principal amount of outstanding Auction Rate to be determined as described under the caption “*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders*” below, if the auction rate will be equal to the rate specified in such bid; or (c) such principal amount or a lesser principal amount of outstanding auction rate notes to be determined as described under the caption “*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders*” below, 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 described under the caption “*Validity of Orders*” below, a sell order by an existing holder will constitute an irrevocable offer to sell: (a) the principal amount of outstanding auction rate notes specified in such sell order or (b) such principal amount or a lesser principal amount of outstanding auction rate notes as described under the caption “*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders*” below if sufficient bids have not been made.

Subject to the provisions described under the caption “*Validity of Orders*” below, a bid by a potential holder will constitute an irrevocable offer to purchase: (a) the principal amount of outstanding auction rate notes specified in such bid if the auction rate will be higher than the rate specified in such bid; or (b) such principal amount or a lesser principal amount of outstanding auction rate notes as described under the caption “*Acceptance and Rejection of Submitted Bids and Submitted Sell Orders*” below, 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: (a) the name of the bidder placing such order; (b) the aggregate principal amount of auction rate notes that are the subject of such order; (c) to the extent that such bidder is an existing holder: (i) the principal amount of auction rate notes, if any, subject to any hold order placed by such existing holder;

(ii) the principal amount of auction rate notes, if any, subject to any bid placed by such existing holder and the rate specified in such bid; and (iii) the principal amount of auction rate notes, if any, subject to any sell order placed by such existing holder; and (d) 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 auction rate 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 auction rate notes owned by such existing holder and not subject to an order submitted to the auction agent.

Neither we nor the indenture trustee or 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 auction rate notes then held by such existing holder. An existing holder that offers to purchase additional auction rate notes is, for purposes of such offer, treated as a potential holder.

Neither we nor any of our affiliates 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 auction rate 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 auction rate notes held by such existing holder, and if the aggregate principal amount of auction rate notes subject to such hold orders exceeds the aggregate principal amount of auction rate notes held by such existing holder, the aggregate principal amount of auction rate notes subject to each such hold order will be reduced pro rata so that the aggregate principal amount of auction rate notes subject to such hold order equals the aggregate principal amount of outstanding auction rate 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 auction rate notes held by such existing holder over the aggregate principal amount of auction rate 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 auction rate 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 auction rate notes subject to each bid with the same rate shall be reduced pro rata to cover the stated amount of outstanding

auction rate 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 auction rate 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 auction rate notes held by such existing holder over the aggregate principal amount of auction rate notes subject to valid hold orders and valid bids as referred to above.

If more than one bid for auction rate 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 auction rate 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 auction rate 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 (a) be treated as a sell order if submitted by an existing holder and (b) 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 auction rate notes over the sum of the aggregate principal amount of outstanding auction rate notes subject to submitted hold orders (such excess being hereinafter referred to as the “available auction rate notes ”); and

(b) from such submitted orders whether: (i) the aggregate principal amount of outstanding auction rate 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 auction rate 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 auction rate 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 auction rate notes in clause (ii) and (iii) above is zero because all of the outstanding auction rate notes are subject to submitted hold orders, such submitted bids by potential holders described in clause (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 auction rate 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 auction rate notes which, when added to the aggregate principal amount of outstanding auction rate notes to be purchased by such potential holders described in subparagraph (c)(ii) above would equal not less than the available auction rate 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 indenture trustee and the broker–dealers 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 auction rate 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 auction rate 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 indenture 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 auction rate 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 under the caption “*Insufficient Bids*” below.

Acceptance and Rejection of Submitted Bids and Submitted Sell Orders. Existing holders will continue to hold the principal amount of auction rate notes that are subject to submitted hold orders and based upon the determinations made as described under the caption “*Determination of Sufficient Bids, Auction Rate, and Winning Bid Rate*” below, submitted bids and submitted sell orders will be accepted or rejected and the auction agent will take such other action as described under the caption “*Sufficient Bids*” below.

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 auction rate 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 auction rate 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 auction rate 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 auction rate notes subject to such submitted bid, unless the aggregate principal amount of auction rate notes subject to all such submitted bids will be greater than the principal amount of auction rate notes (the “remaining principal amount”) equal to the excess of the available auction rate notes over the aggregate principal amount of auction rate 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 auction rate notes subject to such submitted bid, but only in an amount equal to the aggregate principal amount of auction rate notes obtained by multiplying the remaining principal amount by a fraction, the numerator of which will be the principal amount of outstanding auction rate 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 auction rate 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 auction rate notes obtained by multiplying the excess of the aggregate principal amount of available auction rate notes over the aggregate principal amount of auction rate 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 auction rate notes subject to such submitted bid and the denominator of which will be the sum of the principal amount of outstanding auction rate 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 auction rate 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 auction rate 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 auction rate 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 auction rate 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 auction rate notes obtained by multiplying the aggregate principal amount of auction rate 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 auction rate 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 auction rate notes subject to all such submitted bids and submitted sell orders.

All Hold Orders. If all outstanding auction rate 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 auction rate 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 auction rate notes to be purchased or sold by any existing holder or potential holder so that the principal amount of auction rate 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 auction rate notes equal to an authorized denomination, the auction agent will, in such manner as in its sole discretion it may determine, allocate auction rate notes for purchase among potential holders so that only auction rate 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 auction rate notes.

Based on the results of each auction, the auction agent is to determine the aggregate principal amount of auction rate notes to be purchased and the aggregate principal amount of auction rate 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 auction rate notes to be sold differs from such aggregate principal amount of auction rate 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, auction rate 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 auction rate notes as a result of the auction and advise each bidder purchasing or selling auction rate notes as a result of the auction to give instructions to its participant to pay the purchase price against delivery of such auction rate notes or to deliver such auction rate notes against payment therefor, as appropriate. Pursuant to the auction agent agreement, the auction agent is to record each transfer of auction rate notes on the existing holders registry to be maintained by the auction agent.

In accordance with The Depository Trust Company's normal procedures, on the business day after the auction date, the transactions described above will be executed through The Depository Trust Company, so long as The Depository Trust Company is the securities depository, and the accounts of the respective participants at The Depository Trust Company will be debited and credited and auction rate notes delivered as necessary to effect the purchases and sales of auction rate notes as determined in the auction. Purchasers are required to make

payment through their participants in same-day funds to The Depository Trust Company against delivery through their participants. The Depository Trust Company 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 auction rate notes in an auction fails to deliver such auction rate notes, the broker-dealer of any person that was to have purchased auction rate notes in such auction may deliver to such person a principal amount of auction rate notes that is less than the principal amount of auction rate 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 auction rate notes to be delivered will be determined by such broker-dealer. Delivery of such lesser principal amount of auction rate notes will constitute good delivery. Neither the indenture 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 auction rate notes or to pay for the auction rate notes purchased or sold pursuant to an auction or otherwise. For a further description of the settlement procedures, see the caption “Settlement Procedures for Series 2004-1 Notes” herein.

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

The indenture 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 indenture, the auction agent agreement or any broker-dealer agreement. The indenture 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 auction rate notes are outstanding, we 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 auction rate notes. We will not initiate such change in the length of the auction period unless it shall have received, not less than 10 days nor more than 20 days prior to the auction period adjustment the written consent of the market agent, which consent shall not be unreasonably withheld. We will initiate an auction period adjustment by giving written notice to the indenture trustee, the auction agent, the market agent and the securities depository in substantially the form of, or containing substantially the information contained in, the supplemental indenture providing for the issuance of the auction rate notes at least 10 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; provided, however, if the change is either (i) from an auction period shorter than 90 days to one longer than 90 days, (ii) from an auction period longer than 90

days to one shorter than 90 days, or (iii) a change in the auction period of greater than 90 days, then no such auction period adjustment shall be made unless 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 auction period adjustment.

An auction period adjustment will take effect only if (a) the indenture 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 us authorizing an auction period adjustment specified in such certificate and our receipt of written confirmation from each rating agency that such auction period adjustment will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes; and (b) sufficient bids exist at the auction on the auction date for such first auction period. If the conditions referred to in clause (a) above are 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 conditions referred to in clause (a) above are met, but the condition referred to in clause (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 our written consent, and with the consent of any affected broker-dealer, may, subject to conditions contained in the supplemental indenture providing for the issuance of the auction rate notes, 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 under the caption “Auction Procedures—*General*” above, 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 auction rate notes. The market agent shall deliver a written request for consent to such change in the auction date to us 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 us and to the indenture trustee, the auction agent and the securities depository. Such notice will be substantially in the form of, or contain substantially the information contained in, the supplemental indenture providing for the issuance of the auction rate notes.

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 the Auction Rate Notes

If not otherwise defined below, capitalized terms used below will have the meanings given such terms under the captions “Glossary of Certain Defined Terms” or “Auction of the

Auction Rate Notes” herein. These settlement procedures apply separately to each series of the auction rate 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 auction rate 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 auction rate notes, if any, to be purchased by such potential holder;

(v) if the aggregate principal amount of auction rate 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 auction rate 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 auction rate notes and the principal amount of auction rate 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 auction rate 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 auction rate 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 auction rate notes and the principal amount of auction rate 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 auction rate notes to be purchased pursuant to such bid against receipt of such auction rate 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 auction rate 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 auction rate 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 auction rate notes to such broker-dealer following such auction pursuant to paragraph (b)(iii) above the amount necessary, including accrued interest if any, to purchase auction rate notes against receipt of such auction rate notes; and (B) to deliver such auction rate 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 auction rate notes to be purchased pursuant to paragraph (b)(ii) above against receipt of such auction rate notes and (B) deliver such auction rate 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 auction rate notes in an auction fails to deliver such auction rate 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 auction rate notes that is less than the principal amount of auction rate notes that otherwise was to be purchased by such potential holder (but only in an authorized denomination). In such event, the principal amount of

auction rate 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 auction rate notes will constitute good delivery. Notwithstanding the foregoing terms of this paragraph (f), any delivery or nondelivery of auction rate 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 indenture trustee nor the auction agent will have any responsibility or liability with respect to the failure of a potential holder, existing holder or their respective broker-dealer or participant to take delivery of or deliver, as the case may be, the principal amount of the auction rate notes purchased or sold pursuant to an auction or otherwise.

Interest Rate Cap Agreement

We expect to enter into an interest rate cap agreement on the closing date with Bank of America, N.A., an affiliate of Banc of America Securities LLC, one of the underwriters. The interest rate cap agreement will be documented by a confirmation which will be governed by a 1992 ISDA Master Agreement (Local Currency – Single Jurisdiction) modified to reflect the terms of the notes and the indenture.

The interest rate cap agreement will terminate on the earlier of July 1, 2005 and the date on which the interest rate cap agreement terminates in accordance with its terms due to an early termination.

Under the terms of the interest rate cap agreement, we will pay to the counterparty a one-time payment from a portion of the proceeds of the series 2004-1 notes deposited to the Administration Fund to purchase the interest rate cap agreement. On the first day of each month up to and including July 1, 2005 (unless the interest rate cap agreement has been terminated early in accordance with its terms), the counterparty will pay to us for deposit into the Collection Fund an amount, calculated on a monthly basis, equal to the product of (a) the excess, if any, of (i) one-month LIBOR as determined for the interest accrual period related to the applicable monthly calculation date, over (ii) 5.00%, (b) a notional amount equal to \$300,000,000 and (c) the actual number of days elapsed during the interest period divided by 360. The payments we receive from the counterparty will constitute swap counterparty payments pursuant to the indenture and will be deposited to the Collection Fund.

Modifications and Amendment of the Interest Rate Cap Agreement

No amendment, modification or waiver to the interest rate cap agreement may be entered into or will be effective unless written confirmation is received from the rating agencies then rating the notes that such amendment, modification or waiver will not cause a reduction, suspension or withdrawal of the then-current ratings of the notes.

Default Under the Interest Rate Cap Agreement

Events of default under the interest rate cap agreement include:

- the failure of the counterparty to pay any amount when due under the interest rate cap agreement after giving effect to the applicable grace period;
- the occurrence of events of insolvency or bankruptcy; and
- the following other standard events of default under the 1992 ISDA Master Agreement: “Breach of Agreement” (not applicable to us), “Credit Support Default” (not applicable to us), “Cross Default” (not applicable to us), “Misrepresentation” (not applicable to us), “Default under Specific Transaction” (not applicable to us) and “Merger Without Assumption,” as described in Sections 5(a)(ii), 5(a)(iii), 5(a)(iv), 5(a)(v), 5(a)(vi) and 5(a)(viii) of the 1992 ISDA Master Agreement.

Termination Events

Termination events under the interest rate cap agreement include the following standard events under the 1992 ISDA Master Agreement: “Illegality,” which generally relates to changes in law causing it to become unlawful for either party to perform its obligations under the interest rate cap agreement; “Credit Event Upon Merger” (not applicable to us); and the additional termination events described below (none of which are applicable to us).

Additional Termination Events

The interest rate cap agreement will include additional termination events relating to withdrawal or downgrade of the counterparty’s credit rating. These additional termination events will occur if:

- the counterparty has only a long-term senior unsecured debt rating by Moody’s Investors Service, Inc., the Moody’s Investors Service, Inc. long-term rating of the counterparty is downgraded below “Aa3” (but not lower than “A1”), and the counterparty has not, within 30 business days of the date on which the relevant rating was withdrawn or downgraded, procured a collateral arrangement, a replacement transaction or a confirmation from Moody’s Investors Service, Inc. that no such collateral arrangement or replacement transaction is required;
- the counterparty has both long-term and short-term ratings by Moody’s Investors Service, Inc., the Moody’s Investors Service, Inc. long-term rating of the counterparty is withdrawn or downgraded below “A1”, or the Moody’s Investors Service, Inc. short-term rating of the counterparty is “P-1” and on watch for downgrade or is withdrawn or downgraded below “P-1”, and the counterparty has not, within 30 business days of the date on which the relevant rating was withdrawn or downgraded, procured a collateral arrangement, a replacement transaction or a confirmation from Moody’s Investors Service, Inc. that no such collateral arrangement or replacement transaction is required;
- the short-term senior unsecured debt rating of the counterparty by Standard & Poor’s Rating Services ceases to be at least “A-1”, and the counterparty has not, within 30

- business days of the date on which the rating was withdrawn or downgraded, procured a collateral arrangement, a replacement transaction or a confirmation from Standard & Poor's Rating Services that no such collateral arrangement or replacement transaction is required; or
- the long-term or short-term senior unsecured debt ratings of the counterparty by Fitch Ratings cease to be at least "A" and "F1", and the counterparty has not, within 30 business days of the date on which the relevant rating was withdrawn or downgraded, procured a collateral arrangement, a replacement transaction or a confirmation from Fitch Ratings that no such collateral arrangement or replacement transaction is required.

For purposes of this additional termination event:

- A collateral arrangement means any of:
 - An executed collateral agreement between the parties providing for the collateralization of the counterparty's obligations under the interest rate cap agreement. The collateral, collateral levels, collateral agent, if any, and other terms of the collateral agreement must be satisfactory to the counterparty in its reasonable judgment, to us in our reasonable judgment and to the rating agency whose rating was lowered, suspended or withdrawn.
 - A letter of credit, guaranty or surety bond or insurance policy covering the counterparty's obligations under the interest rate cap agreement from a bank, guarantor or insurer acceptable to the rating agency whose rating was lowered, suspended or withdrawn.
- A replacement transaction means a transaction with a replacement counterparty who assumes the counterparty's position under the interest rate cap agreement on substantially the same terms or with such other amendments to the terms of the interest rate cap agreement as may be approved by the parties that receives a rating confirmation from each of the rating agencies.

A rating affirmation means a written acknowledgement from the rating agency whose rating was lowered or withdrawn that, notwithstanding the withdrawal or downgrade, the then-current ratings of the notes will not be lowered, suspended or withdrawn.

Early Termination of the Interest Rate Cap Agreement

Upon the occurrence of any default under the interest rate cap agreement or a termination event, the non-defaulting party or the non-affected party, as the case may be, will have the right to designate an early termination date upon the occurrence of that default or termination event.

Upon any early termination of the interest rate cap agreement, the counterparty may be liable to make a termination payment to us, regardless of which party has caused that

termination. The amount of that termination payment will be based on the value of the transaction under the interest rate cap agreement computed in accordance with the procedures in, and limited by the terms of, the interest rate cap agreement.

Interest Rate Cap Agreement Counterparty

General. Bank of America, N.A. (the “Bank”), is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “Corporation”) and is engaged in general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of December 31, 2003, the Bank had consolidated assets of \$618 billion, consolidated deposits of \$436 billion and stockholder’s equity of \$49 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2003, together with any subsequent documents it filed with the Securities and Exchange Commission (the “Commission”) pursuant to the Securities Exchange Act of 1934, as amended (the “Exchange Act”).

Recent Developments. On October 27, 2003, the Corporation and FleetBoston Financial Corporation (“FleetBoston”) announced they had signed an Agreement and Plan of Merger dated October 27, 2003. Under terms of the merger agreement, FleetBoston stockholders will receive .5553 shares of Bank of America Corporation common stock for each of their shares. The merger agreement has been approved by the boards of directors of the Corporation and FleetBoston and is subject to customary closing conditions, including regulatory and stockholders’ approvals. Closing is expected in the first half of 2004.

Moody’s Investors Service, Inc. currently rates the Bank’s long-term certificates of deposit as “Aa1” and short-term certificates of deposit as “P-1”. Standard & Poor’s Rating Services rates the Bank’s long-term certificates of deposit as “AA-” and its short-term certificates of deposit as “A-1+”. Fitch, Inc. rates long-term certificates of deposit of the Bank as “AA+” and short-term certificates of deposit as “F1+.” Further information with respect to such ratings may be obtained from Moody’s Investors Service, Inc. Standard & Poor’s Rating Services and Fitch, Inc., respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained. On October 27, 2003 Standard & Poor’s Rating Services revised its ratings outlook for the Corporation and its affiliates, including its ratings outlook for the Bank’s long- and short-term certificates of deposit, to positive from stable. On October 27, 2003 Fitch, Inc. placed its ratings for the Corporation and its affiliates, including its ratings for the Bank’s long- and short-term certificates of deposit, on Ratings Watch Negative after the FleetBoston merger announcement described above. On October 30, 2003 Fitch, Inc. removed its short-term ratings for the Corporation and its affiliates, including its ratings for the Bank’s short-term certificates of deposit, from Ratings Watch Negative.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the Commission pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications
100 North Tryon Street, 18th Floor
Charlotte, North Carolina 28255
Attention: Corporate Communications

The information contained under this caption relates to and has been obtained from the Bank. The information concerning the Corporation and the Bank contained herein is furnished solely to provide limited introductory information regarding the Corporation and the Bank and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced above.

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to under this caption is correct as of any time subsequent to its date.

The information in the preceding paragraphs has been provided by Bank of America, N.A. and is not guaranteed as to accuracy or completeness, and is not to be construed as representations by us or by the underwriters. Except for the foregoing paragraphs, Bank of America, N.A. has not been involved in the preparation of, and does not accept responsibility for, this Offering Memorandum.

Book-Entry Registration

Investors acquiring beneficial ownership interests in the LIBOR rate notes issued in book-entry form will hold their LIBOR rate notes through The Depository Trust Company in the United States or through Clearstream Banking, société anonyme (known as Clearstream, Luxembourg), formerly known as Cedelbank société, or Euroclear System in Europe, or indirectly through organizations which are participants in The Depository Trust Company, Clearstream, Luxembourg or Euroclear. Cede & Co., as nominee of The Depository Trust Company, will hold one or more global notes and certificates and Clearstream, Luxembourg and Euroclear will hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream, Luxembourg's and Euroclear's names on the books of the respective depositories, which in turn will hold these positions in the depositories' names on the books of The Depository Trust Company. Transfers between The Depository Trust Company participants will occur in accordance with the rules of The Depository Trust Company, and transfers between Euroclear participants and Euroclear participants will occur in accordance with their applicable rules and operating procedures.

Investors acquiring beneficial ownership interests in the auction rate notes issued in book-entry form will hold their auction rate notes through The Depository Trust Company, or indirectly through organizations which are participants in The Depository Trust Company. The book-entry notes will be issued in one or more instruments which equal the aggregate principal balance of each series of the auction rate notes and will initially be registered in the name of Cede & Co., the nominee of The Depository Trust Company. Except as described below, no person acquiring a book-entry note will be entitled to receive a physical certificate representing the series 2004-1 notes. Unless and until definitive certificates are issued, it is anticipated that the only holder of the auction rate notes will be Cede & Co., as nominee of The Depository Trust Company.

Cross-market transfers between persons holding directly or indirectly through The Depository Trust Company, on the one hand, and directly or indirectly through European Clearing System's participants, on the other, will be effected at The Depository Trust Company in accordance with the rules of The Depository Trust Company on behalf of the relevant European Clearing System by its depository; however, cross-market transactions will require delivery of instructions to the relevant European Clearing System by the counterparty in that system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European Clearing System will, if the transaction meets its settlement requirements, deliver instructions to its depository to take action to effect final settlement on its behalf by delivering or receiving notes in The Depository Trust Company, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to The Depository Trust Company. The European Clearing System's participants may not deliver instructions directly to the depositaries for such European Clearing System.

Because of time-zone differences, credits of notes received in the European Clearing Systems as a result of a transaction with participants in The Depository Trust Company will be made during subsequent notes settlement processing and dated the business day following The Depository Trust Company settlement date. Credits for any transactions in the LIBOR rate notes settled during this processing will be reported to the relevant European Clearing System's participant on that business day. Cash received in a European Clearing System as a result of sales of notes by or through a Clearstream, Luxembourg participant or a Euroclear participant to a participant in The Depository Trust Company will be received with value on The Depository Trust Company settlement date but will be available in the relevant European Clearing System's cash account only as of the business day following settlement in The Depository Trust Company.

The Depository Trust Company. The Depository Trust Company is a New York-chartered limited-purpose trust company that performs services for its participants, some of which, and/or their representatives, own The Depository Trust Company. In accordance with its normal procedures, The Depository Trust Company is expected to record the positions held by each of its participants in notes issued in book-entry form, whether held for its own account or as nominee for another person. In general, beneficial ownership of book-entry notes will be subject to the rules, regulations and procedures governing The Depository Trust Company and its participants as in effect from time to time.

Purchases of the series 2004-1 notes under The Depository Trust Company system must be made by or through direct participants, which are to receive a credit for the series 2004-1 notes on The Depository Trust Company's records. The ownership interest of each actual purchaser of each series of the series 2004-1 notes, or beneficial owner, is in turn to be recorded on the direct and indirect participants' records. Beneficial owners shall not receive written confirmation from The Depository Trust Company of their purchase, but beneficial owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the direct or indirect participant through which the beneficial owner entered into the transaction. Transfers of ownership interests in the series 2004-1 notes are to be accomplished by entries made on the books of participants acting on behalf of beneficial owners. Beneficial owners shall not receive certificates representing their ownership interests in the series 2004-1 notes, except in the event that use of the book-entry system for the series of any notes is discontinued.

To facilitate subsequent transfers, all series 2004-1 notes deposited by participants with The Depository Trust Company are registered in the name of The Depository Trust Company's partnership nominee, Cede & Co. The deposit of such series 2004-1 notes with The Depository Trust Company and their registration in the name of Cede & Co. effect no change in beneficial ownership. The Depository Trust Company has no knowledge of the actual beneficial owners of notes; The Depository Trust Company's records reflect only the identity of the direct participants to whose accounts such series 2004-1 notes are credited, which may or may not be the beneficial owners. The participants remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by The Depository Trust Company to direct participants, by direct participants to indirect participants, and by direct participants and indirect participants to beneficial owners are governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to Cede & Co. If less than all of the series 2004-1 notes of any series are being redeemed, The Depository Trust Company's practice is to determine by lot the amount of the interest of each direct participant in such series 2004-1 notes to be redeemed.

Neither The Depository Trust Company nor Cede & Co. will consent or vote with respect to the series 2004-1 notes of any series. Under its usual procedures, The Depository Trust Company mails an omnibus proxy to us, or the indenture trustee, as appropriate, as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s consenting or voting rights to those direct participants to whose accounts the series 2004-1 notes are credited on the record date.

Principal and interest payments on the series 2004-1 notes are to be made to The Depository Trust Company. The Depository Trust Company's practice is to credit direct participant's accounts on the due date in accordance with their respective holdings shown on The Depository Trust Company's records unless The Depository Trust Company has reason to believe that it will not receive payment on the due date. Payments by participants to beneficial

owners are governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and shall be the responsibility of the participant and not our responsibility or the responsibility of The Depository Trust Company or the indenture trustee, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to The Depository Trust Company is our responsibility or the responsibility of the indenture trustee. Disbursement of such payments to direct participants shall be the responsibility of The Depository Trust Company, and disbursement of such payments to the beneficial owners shall be the responsibility of direct and indirect participants.

Clearstream, Luxembourg. Clearstream, Luxembourg is a duly licensed bank organized as a limited liability company (a société anonyme) incorporated under the laws of the Grand Duchy of Luxembourg as a professional depository. Clearstream, Luxembourg holds securities for its participants and facilitates the clearance and settlement of securities transactions between Clearstream, Luxembourg participants through electronic book-entry changes in accounts of Clearstream, Luxembourg participants. Thus, the need for physical movement of certificates is eliminated. Transactions may be settled in Clearstream, Luxembourg in numerous currencies, including United States dollars. Clearstream, Luxembourg provides to its participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded notes and notes lending and borrowing. Clearstream, Luxembourg interfaces with domestic markets in several countries. As a professional depository, Clearstream, Luxembourg is subject to regulation by the Luxembourg Monetary Institute. Clearstream, Luxembourg participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Clearstream, Luxembourg is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream, Luxembourg participant, either directly or indirectly.

Euroclear. The Euroclear System was created in 1968 to hold securities for participants of Euroclear and to clear and settle transactions between Euroclear participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Transactions may be settled in numerous currencies, including United States dollars. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries generally similar to the arrangements for cross-market transfers with The Depository Trust Company described above. Euroclear is operated by Euroclear Bank, S.A./N.V.

All operations are conducted by the Euroclear operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear operator. Euroclear participants include banks, central banks, securities brokers and dealers and other professional financial intermediaries. Indirect access to the Euroclear System is also available to other firms that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law. These govern transfers of securities and cash within the Euroclear System, withdrawals of securities and cash from the Euroclear System, and receipts of payments with respect to securities in the Euroclear System. All securities in the Euroclear System are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear operator acts only on behalf of Euroclear participants, and has no record of or relationship with persons holding through Euroclear participants.

Distributions with respect to securities held through Clearstream, Luxembourg or Euroclear will be credited to the cash accounts of Clearstream, Luxembourg participants or Euroclear participants in accordance with the relevant system's rules and procedures, to the extent received by its depository. These distributions will be subject to tax reporting in accordance with relevant United States tax laws and regulations. See the caption "United States Federal Income Tax Consequences" herein. Clearstream, Luxembourg or the Euroclear operator, as the case may be, will take any other action permitted to be taken by a securityholder under the agreement on behalf of a Clearstream, Luxembourg participant or Euroclear participant only in accordance with its relevant rules and procedures and subject to its depository's ability to effect these actions on its behalf through The Depository Trust Company.

Although The Depository Trust Company, Clearstream, Luxembourg and Euroclear have agreed to the foregoing procedures in order to facilitate transfers of interests in the notes among participants of The Depository Trust Company, Clearstream, Luxembourg and Euroclear, they are under no obligation to perform or continue to perform such procedures. As a result, such procedures may be discontinued at any time.

We may decide to discontinue use of the system of book-entry transfers through The Depository Trust Company, Euroclear or Clearstream, Luxembourg or any successor securities depository. In that event, note certificates are to be printed and delivered. The Depository Trust Company, Euroclear or Clearstream, Luxembourg may discontinue providing its services as a securities depository with respect to the notes of any series at any time by giving reasonable notice to us and to the indenture trustee. In the event that a successor securities depository is not obtained, note certificates are required to be printed and delivered.

Neither we nor the sellers, the servicer, the indenture trustee or the underwriters will have any responsibility or obligation to The Depository Trust Company, Euroclear or Clearstream, Luxembourg participants or the persons for whom they act as nominees with respect to:

- the accuracy of any records maintained by The Depository Trust Company, Euroclear or Clearstream, Luxembourg or any participant;
- the payment by The Depository Trust Company, Euroclear or Clearstream, Luxembourg or any participant of any amount due to any beneficial owner in respect of the principal amount or interest on the series 2004-1 notes;

- the delivery by The Depository Trust Company, Euroclear or Clearstream, Luxembourg participant of any notice to any beneficial owner which is required or permitted under the terms of the indenture to be given to holders of the series 2004-1 notes; or
- any other action taken by The Depository Trust Company, Euroclear or Clearstream, Luxembourg.

Description of the Federal Family Education Loan Program

The Higher Education Act provides for several different educational loan programs (collectively, “FFELP loans” and, the program with respect thereto, the “Federal Family Education Loan Program”). Under these programs, state agencies or private nonprofit corporations administering student loan insurance programs (“guarantee agencies”) are reimbursed for portions of losses sustained in connection with FFELP loans, and holders of certain loans made under such programs are paid subsidies for owning such loans. Certain provisions of the Federal Family Education Loan Program are summarized below.

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 Federal Family Education Loan Program that apply to loans made on or after July 1, 1998. The following summary of the Federal Family Education Loan Program as established by the Higher Education Act does not purport to be comprehensive or definitive and is qualified in its entirety by reference to the text of the Higher Education Act and the regulations thereunder.

FFELP Loans

Several types of loans are currently authorized as FFELP loans pursuant to the Federal Family Education Loan Program. These include: (a) loans to students meeting certain financial needs tests with respect to which the federal government makes interest payments available to reduce student interest cost during periods of enrollment (“subsidized Stafford Loans”); (b) loans to students made without regard to financial need with respect to which the federal government does not make such interest payments (“unsubsidized Stafford Loans” and, collectively with subsidized Stafford Loans, “Stafford Loans”); (c) loans to parents of dependent students (“PLUS loans”); and (d) loans available to borrowers with certain existing federal educational loans to consolidate repayment of such loans (“consolidation loans”).

Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who (a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution; (b) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution; (c) has agreed to notify promptly the holder of the loan of any address change; and (d) meets the applicable “need” requirements. Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations. With certain exceptions, an institution with a cohort (composite)

default rate that is higher than certain specified thresholds in the Higher Education Act is not an eligible institution.

Subsidized Stafford Loans

The Higher Education Act provides for federal (a) insurance or reinsurance of eligible subsidized Stafford Loans, (b) interest subsidy payments to eligible lenders with respect to certain eligible subsidized Stafford Loans, and (c) special allowance payments representing an additional subsidy paid by the Secretary of the U.S. Department of Education (the “Secretary of Education”) to such holders of eligible subsidized Stafford Loans.

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

Subject to these limits, subsidized Stafford Loans are available to borrowers in amounts not exceeding their unmet need for financing as provided in the Higher Education Act. Provisions addressing the implementation of need analysis and the relationship between unmet need for financing and the availability of subsidized Stafford Loan program funding have been the subject of frequent and extensive amendment in recent years. There can be no assurance that further amendment to such provisions will not materially affect the availability of subsidized Stafford Loan funding to borrowers or the availability of subsidized Stafford Loan for secondary market acquisition.

Unsubsidized Stafford Loans

Unsubsidized Stafford Loans are available for students who do not qualify for subsidized Stafford Loans due to parental and/or student income or assets in excess of permitted amounts. In other respects, the general requirements for unsubsidized Stafford Loans are essentially the same as those for subsidized Stafford Loans. The interest rate, the annual loan limits, the loan fee requirements and the special allowance payment provisions of the unsubsidized Stafford Loans are the same as the subsidized Stafford Loans. However, the terms of the unsubsidized Stafford Loans differ materially from subsidized Stafford Loans in that the Secretary of Education does not make interest subsidy payments and the loan limitations are determined without respect to the expected family contribution. The borrower is required to pay interest from the time such loan is disbursed or capitalize the interest until repayment begins.

PLUS Loan Program

The Higher Education Act authorizes PLUS loans to be made to parents of eligible dependent students. Only parents who do not have an adverse credit history are eligible for PLUS loans. The basic provisions applicable to PLUS loans are similar to those of Stafford

Loans with respect to the involvement of guarantee agencies and the Secretary of Education in providing federal reinsurance on the loans. However, PLUS loans differ significantly from subsidized Stafford Loans, particularly because federal interest subsidy payments are not available under the PLUS loan program and special allowance payments are more restricted.

The Consolidation Loan Program

The Higher Education Act authorizes a program under which certain borrowers may consolidate their various student loans into a single loan insured and reinsured on a basis similar to subsidized Stafford Loans. Consolidation loans may be made in an amount sufficient to pay outstanding principal, unpaid interest and late charges on certain federally insured or reinsured student loans incurred under and pursuant to the Federal Family Education Loan Program (other than PLUS loans made to “parent borrowers”) selected by the borrower, as well as loans made pursuant to the Perkins Loan Program (formally the National Direct Student Loan Program), the Health Professional Student Loan Programs and the William D. Ford Federal Direct Loan Program (the “Federal Direct Loan Program”). The borrowers may be either in repayment status or in a grace period preceding repayment. Delinquent or defaulted borrowers are eligible to obtain consolidation loans if they agree to re-enter repayment through loan consolidation. Borrowers may add additional loans to a consolidation loan during the 180-day period following origination of the consolidation loan. Further, a married couple who agrees to be jointly and severally liable is to be treated as one borrower for purposes of loan consolidation eligibility. A consolidation loan will be federally insured or reinsured only if such loan is made in compliance with requirements of the Higher Education Act.

In the event that a borrower is unable to obtain a consolidation loan with income sensitive repayment terms acceptable to the borrower from the holders of the borrower’s outstanding loans (that are selected for consolidation), or from any other eligible lender, the Higher Education Act authorizes the Secretary of Education to offer the borrower a consolidation loan with income contingent terms under the Federal Direct Loan Program. Such consolidation loans under the Federal Direct Loan Program shall be repaid either pursuant to income contingent repayment or any other repayment provision under the authorizing section of the Higher Education Act.

Interest Rates

Subsidized and unsubsidized Stafford Loans made after October 1, 1998 which are in in-school, grace and deferment periods bear interest at a rate equivalent to the 91-day United States Treasury bill rate plus 1.7%, with a maximum rate of 8.25%. The Higher Education Act currently provides that for subsidized Stafford Loans and unsubsidized Stafford Loans made on or after July 1, 2006, the interest rate will be equal to 6.8% per annum and for PLUS loans made on or after July 1, 2006, the interest rate will be equal to 7.9% per annum. Subsidized Stafford Loans and unsubsidized Stafford Loans in all other periods bear interest at a rate equivalent to the 91-day United States Treasury bill rate plus 2.3%, with a maximum rate of 8.25%. The rate is adjusted annually on July 1. PLUS loans bear interest at a rate equivalent to the 91-day United States Treasury bill rate plus 3.1%, with a maximum rate of 9%. Consolidation loans for which the application was received by an eligible lender on or after October 1, 1998, bear interest at a rate equal to the weighted average of the loans consolidated, rounded to the nearest higher

one-eighth of 1%, with a maximum rate of 8.25%. Consolidation loan applications received on or after July 1, 2003 bear interest at a rate equal to the weighted average of the interest rates on the loans being consolidated, rounded upward to the nearest one-eighth of 1%.

Loan Limits

The Higher Education Act requires that subsidized Stafford Loans and unsubsidized Stafford Loans made to cover multiple enrollment periods, such as a semester, trimester or quarter be disbursed by eligible lenders in at least two separate disbursements. A Stafford Loan borrower may receive a subsidized loan, an unsubsidized loan, or a combination of both for an academic period. Generally, the maximum amount of a Stafford Loan for an academic year cannot exceed \$2,625 for the first year of undergraduate study, \$3,500 for the second year of undergraduate study and \$5,500 for the remainder of undergraduate study. The aggregate limit for undergraduate study is \$23,000 (excluding PLUS loans). Independent undergraduate students may receive an additional unsubsidized Stafford Loan of up to \$4,000 per academic year, with an aggregate maximum of \$46,000. The maximum amount of the loans for an academic year for graduate students is \$8,500, and independent students may borrow an additional unsubsidized Stafford Loan up to \$10,000 per academic year. The Secretary of Education has discretion to raise these limits by regulation to accommodate highly specialized or exceptionally expensive courses of study. For example, certain medical students may now borrow up to \$46,000 per academic year, with a maximum aggregate limit of \$189,125.

The total amount of all PLUS loans that parents may borrow on behalf of each dependent student for any academic year may not exceed the student's cost of attendance minus other estimated financial assistance for that student.

Repayment

Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student, but generally begins not more than six months after the borrower ceases to pursue at least a half-time course of study (the six month period is the "grace period"). Grace periods may be waived by borrowers. Repayment of interest on an unsubsidized Stafford Loan begins immediately upon disbursement of the loan, however the lender may capitalize the interest until repayment of principal is scheduled to begin. Except for certain borrowers as described below, each loan generally must be scheduled for repayment over a period of not more than ten years after the commencement of repayment. The Higher Education Act currently requires minimum annual payments of \$600, including principal and interest, unless the borrower and the lender agree to lesser payments; in instances in which a borrower and spouse both have such loans outstanding, the total combined payments for such a couple may not be less than \$600 per year. Regulations of the Secretary of Education require lenders to offer standard, graduated or income-sensitive repayment schedules to borrowers. Use of income sensitive repayment plans may extend the ten-year maximum term for up to three years.

PLUS loans enter repayment on the date the last disbursement is made on the loan. Interest accrues and is due and payable from the date of the first disbursement of the loan. The

first payment is due within 60 days after the loan is fully disbursed. Repayment plans are the same as in the subsidized and unsubsidized Stafford Loan program.

Consolidation loans enter repayment on the date the loan is disbursed. The first payment is due within 60 days after that date. Consolidation loans 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).

Federal Family Education Loan Program borrowers who accumulate outstanding FFELP loans totaling more than \$30,000 may receive an extended repayment plan, with a fixed or graduated payment amount paid over a longer period of time, not to exceed 25 years. A borrower may accelerate principal payments at any time without penalty. Once a repayment plan is established, the borrower may annually change the selection of the plan.

No principal repayments need to be made during certain periods prescribed by the Higher Education Act (each, a "deferment period") but interest accrues and must be paid. Generally, deferment periods include periods (a) when the borrower has returned to an eligible educational institution on a half-time basis or is pursuing studies pursuant to an approved graduate fellowship or rehabilitation training program, (b) not exceeding three years while the borrower is seeking and unable to find full-time employment, and (c) not in excess of three years for any reason which the lender determines, in accordance with regulations, has caused or will cause the borrower economic hardship. Deferment periods extend the maximum repayment periods. Under certain circumstances, a lender may also allow periods of forbearance (each a "forbearance period") during which the borrower may defer payments because of temporary financial hardship. The Higher Education Act specifies certain periods during which forbearance is mandatory. Mandatory forbearance periods exist when the borrower is impacted by a national emergency, military mobilization, or when the geographical area in which the borrower resides or works is declared a disaster area by certain officials. Other mandatory periods include periods during which the borrower is (a) participating in a medical or dental residency and is not eligible for deferment; (b) serving in a qualified medical or dental internship program or certain national service programs; or (c) determined to have a debt burden of certain federal loans equal to or exceeding 20% of the borrower's gross income. In other circumstances, forbearance periods may be granted at the lender's option. Forbearance periods also extends the maximum repayment periods.

Interest Subsidy Payments

The Secretary is to pay interest on subsidized Stafford Loans while the student is a qualified student, during a grace period or during certain deferment periods. In addition, those portions of consolidation loans that repay subsidized Stafford Loans or similar subsidized loans made under the Federal Direct Loan Program are eligible for interest subsidy payments. The Secretary of Education is required to make interest subsidy payments to the holder of subsidized Stafford Loans in the amount of interest accruing on the unpaid balance thereof prior to the commencement of repayment or during any deferment period. The Higher Education Act provides that the holder of an eligible subsidized Stafford Loan, or the eligible portions of

consolidation loans, shall be deemed to have a contractual right against the United States to receive interest subsidy payments in accordance with its provisions.

Special Allowance Payments

The Higher Education Act provides for special allowance payments to be made by the Secretary of Education to eligible lenders. The rates for special allowance payments are based on formulae that differ according to the type of loan, the date the loan was first disbursed, the interest rate and the type of funds used to finance such loan (tax-exempt or taxable).

The formulae for special allowance payment rates for subsidized Stafford Loans and unsubsidized Stafford Loans are summarized in the following chart. The term “T-Bill” as used in this table and the following table, means the average 91-day United States Treasury bill rate calculated as a “bond equivalent rate” in the manner applied by the Secretary of Education as referred to in Section 438 of the Higher Education Act. The term “3 month commercial paper rate” means the 90-day commercial paper index calculated quarterly and based on an average of the daily 90-day commercial paper rates reported in the Federal Reserve’s Statistical Release H-15.

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after July 1, 1995	T-Bill Rate less Applicable Interest Rate + 3.1% ¹
On or after July 1, 1998	T-Bill Rate less Applicable Interest Rate + 2.8% ²
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.34% ³

¹ Substitute 2.5% in this formula while such loans are in the in-school or grace period.

² Substitute 2.2% in this formula while such loans are in the in-school or grace period.

³ Substitute 1.74% in this formula while such loans are in the in-school or grace period.

The formula for special allowance payment rates for PLUS loans and consolidation loans are as follows:

Date of Loans	Annualized SAP Rate
On or after October 1, 1992	T-Bill Rate less Applicable Interest Rate + 3.1%
On or after January 1, 2000	3 Month Commercial Paper Rate less Applicable Interest Rate + 2.64%

Special allowance payments are generally payable, with respect to variable rate FFELP loans to which a maximum borrower interest rate applies, only when the maximum borrower interest rate is in effect. The Secretary of Education offsets interest subsidy payments and

special allowance payments by the amount of origination fees and lender loan fees described under the caption “Loan Fees” below.

The Higher Education Act provides that a holder of a qualifying loan who is entitled to receive special allowance payments has a contractual right against the United States to receive those payments during the life of the loan. Receipt of special allowance payments, however, is conditioned on the eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of federal regulations or guarantee agency requirements.

Loan Fees

Insurance Premium. A guarantee agency is authorized to charge a premium, or guarantee fee, of up to 1% of the principal amount of the loan, which may be deducted proportionately from each installment of the loan. Generally, guarantee agencies have waived this fee since 1999.

Origination Fee. The lender is required to pay to the Secretary of Education an origination fee equal to 3% of the principal amount of each subsidized and unsubsidized Stafford Loan and PLUS loan. The lender may charge these fees to the borrower by deducting them proportionately from each disbursement of the loan proceeds.

Lender Loan Fee. The lender of any FFEL loan is required to pay to the Secretary of Education an additional origination fee equal to 0.5% of the principal amount of the loan.

The Secretary of Education collects from the lender or subsequent holder the maximum origination fee authorized (regardless of whether the lender actually charges the borrower) and the lender loan fee, either through reductions in interest subsidy payments or special allowance 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 plus accrued interest on the loan.

Insurance and Guarantees

A FFELP loan is considered to be in default for purposes of the Higher Education Act when the borrower fails to make an installment payment when due, or to comply with other terms of the loan, and if the failure persists for 270 days in the case of a loan repayable in monthly installments or for 330 days in the case of a loan repayable in less frequent installments. If the loan is guaranteed by a guarantee agency in accordance with the provisions of the Higher Education Act, the guarantee agency is to pay the holder a percentage of such amount of the loss subject to reduction as described in the following paragraphs within 90 days of notification of such default.

Federal Insurance

The Higher Education Act provides that, subject to compliance with the Higher Education Act, the full faith and credit of the United States is pledged to the payment of insurance claims and ensures that such reimbursements are not subject to reduction. In addition, the Higher Education Act provides that if a guarantor is unable to meet its insurance obligations, holders of loans may submit insurance claims directly to the Secretary of Education until such time as the obligations are transferred to a new guarantee agency capable of meeting such obligations or until a successor guarantee agency assumes such obligations. Federal reimbursement and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary of Education is authorized, to the extent provided in advance by appropriations acts, to issue obligations to the Secretary of the Treasury to provide funds to make such federal payments.

Guarantees

If the loan is guaranteed by a guarantee agency in accordance with the provisions of the Higher Education Act, the eligible lender is reimbursed by the guarantee agency for a statutorily-set percentage (98%) of the unpaid principal balance of the loan plus accrued unpaid interest on any loan defaulted so long as the eligible lender has properly serviced such loan. Under the Higher Education Act, the Secretary of Education enters into a guarantee agreement and a reinsurance agreement (each a “guarantee agreement”) with each guarantee agency which provides for federal reimbursement for amounts paid to eligible lenders by the guarantee agency with respect to defaulted loans.

Guarantee Agreements. Pursuant to the guarantee agreements, the Secretary of Education is to reimburse a guarantee agency for the amounts expended in connection with a claim resulting from the death, bankruptcy or total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS loan, certain claims by borrowers who are unable to complete the programs in which they are enrolled due to school closure, borrowers whose borrowing eligibility was falsely certified by the eligible institution, or the amount of an unpaid refund due from the school to the lender in the event the school fails to make a required refund. Such claims are not included in calculating a guarantee agency’s claims rate experience for federal reimbursement purposes. Generally, educational loans are non-dischargeable in bankruptcy unless the bankruptcy court determines that the debt will impose an undue hardship on the borrower and the borrower’s dependents. Further, the Secretary of Education is to reimburse a guarantee agency for any amounts paid to satisfy claims not resulting from death, bankruptcy, or disability subject to reduction as described below.

The Secretary of Education may terminate guarantee agreements if the Secretary of Education determines that termination is necessary to protect the federal financial interest or to ensure the continued availability of loans to student or parent borrowers. Upon termination of such agreements, the Secretary of Education is authorized to provide the guarantee agency with additional advance funds with such restrictions on the use of such funds as is determined appropriate by the Secretary of Education, in order to meet the immediate cash needs of the

guarantee agency, ensure the uninterrupted payment of claims, or ensure that the guarantee agency will make loans as the lender-of-last-resort.

If the Secretary of Education has terminated or is seeking to terminate guarantee agreements, or has assumed a guarantee agency's functions, notwithstanding any other provision of law: (a) no state court may issue an order affecting the Secretary of Education's actions with respect to that guarantee agency; (b) any contract entered into by the guarantee agency with respect to the administration of the guarantee agency's reserve funds or assets acquired with reserve funds shall provide that the contract is terminable by the Secretary of Education upon 30 days notice to the contracting parties if the Secretary of Education determines that such contract includes an impermissible transfer of funds or assets or is inconsistent with the terms or purposes of the Higher Education Act; and (c) no provision of state law shall apply to the actions of the Secretary of Education in terminating the operations of the guarantee agency. Finally, notwithstanding any other provision of law, the Secretary of Education's liability for any outstanding liabilities of a guarantee agency (other than outstanding student loan guarantees under the Higher Education Act), the functions of which the Secretary of Education has assumed, shall not exceed the fair market value of the reserves of the guarantee agency, minus any necessary liquidation or other administrative costs.

Reimbursement. The amount of a reimbursement payment on defaulted loans made by the Secretary of Education to a guarantee agency is subject to reduction based upon the annual claims rate of the guarantee agency calculated to equal the amount of federal reimbursement as a percentage of the original principal amount of originated or guaranteed loans in repayment on the last day of the prior fiscal year. The claims experience is not accumulated from year to year, but is determined solely on the basis of claims in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year. The formula for reimbursement amounts is summarized below:

Claims Rate	Guarantee Agency Reinsurance Rate for Loans made prior to October 1, 1993	Guarantee Agency Reinsurance Rate for Loans made between October 1, 1993 and September 30, 1998	Guarantee Agency Reinsurance Rate for Loans made on or after October 1, 1998 ¹
0% up to 5%	100%	98%	95%
5% up to 9%	100% of claims up to 5%; and 90% of claims 5% and over	98% of claims up to 5%; and 88% of claims 5% and over	95% of claims up to 5% and 85% of claims 5% and over
9% and over	100% of claims up to 5%; 90% of claims 5% up to 9%; 80% of claims 9% and over	98% of claims up to 5%; 88% of claims 5% up to 9%; 78% of claims 9% and over	95% of claims up to 5%, 85% of claims 5% up to 9%; 75% of claims 9% and over

¹ Other than student loans made pursuant to the lender-of-last resort program or student loans transferred by an insolvent guarantee agency as to which the amount of reinsurance is equal to 100%.

The original principal amount of loans guaranteed by a guarantee agency which are in repayment for purposes of computing reimbursement payments to a guarantee agency means the original principal amount of all loans guaranteed by a guarantee agency less: (a) guarantee

payments on such loans, (b) the original principal amount of such loans that have been fully repaid, and (c) the original amount of such loans for which the first principal installment payment has not become due.

In addition, the Secretary of Education may withhold reimbursement payments if a guarantee agency makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary of Education or applicable federal law. A supplemental guarantee agreement is subject to annual renegotiation and to termination for cause by the Secretary of Education.

Under the guarantee agreements, if a payment on a FFELP loan guaranteed by a guarantee agency is received after reimbursement by the Secretary of Education, the Secretary of Education is entitled to receive an equitable share of the payment. Guarantee agency retentions remaining after payment of the Secretary of Education's equitable share on such collections on consolidations of defaulted loans were reduced to 18.5% from 27% effective July 1, 1997 and for other loans were reduced from 27% to 24% (23% effective October 1, 2003).

Lender Agreements. Pursuant to most typical agreements for guarantee between a guarantee agency and the originator of the loan, any eligible holder of a loan insured by such a guarantee agency is entitled to reimbursement from such guarantee agency of any proven loss incurred by the holder of the loan resulting from default, death, permanent and total disability or bankruptcy of the student borrower at the rate of 100% of such loss (or, subject to certain limitations, 98% for loans in default made on or after October 1, 1993). Guarantee agencies generally deem default to mean a student borrower's failure to make an installment payment when due or to comply with other terms of a note or agreement under circumstances in which the holder of the loan may reasonably conclude that the student borrower no longer intends to honor the repayment obligation and for which the failure persists for 270 days in the case of a loan payable in monthly installments or for 330 days in the case of a loan payable in less frequent installments. When a loan becomes at least 60 days past due, the holder is required to request default aversion assistance from the applicable guarantee agency in order to attempt to cure the delinquency. When a loan becomes 240 days past due, the holder is required to make a final demand for payment of the loan by the borrower. The holder is required to continue collection efforts until the loan is 270 days past due. At the time of payment of insurance benefits, the holder must assign to the applicable guarantee agency all right accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guarantee agency from filing a claim for reimbursement with respect to losses prior to 270 days after the loan becomes delinquent with respect to any installment thereon.

Any holder of a loan is required to exercise due care and diligence in the servicing of the loan and to utilize practices which are at least as extensive and forceful as those utilized by financial institutions in the collection of other consumer loans. If a guarantee agency has probable cause to believe that the holder has made misrepresentations or failed to comply with the terms of its agreement for guarantee, the guarantee agency may take reasonable action including withholding payments or requiring reimbursement of funds. The guarantee agency may also terminate the agreement for cause upon notice and hearing.

Guarantee Agency Reserves

Each guarantee agency is required to establish a Federal Student Loan Reserve Fund (each a “federal fund”) which, together with any earnings thereon, are deemed to be property of the United States. Each guarantee agency is required to deposit into the federal fund any reserve funds plus reinsurance payments received from the Secretary of Education, default collections, insurance premiums, 70% of payments received as administrative cost allowance and other receipts as specified in regulations. A guarantee agency is authorized to transfer up to 180 days’ cash expenses for normal operating expenses (other than claim payments) from the federal fund to the operating fund described below at any time during the first three years after establishment of the fund. The federal fund may be used to pay lender claims and to pay default aversion fees into the operating fund. A guarantee agency is also required to establish an operating fund (each an “operating fund”), which, except for funds transferred from the federal fund to meet operating expenses during the first three years after fund establishment, is the property of the guarantee agency. A guarantee agency may deposit into the operating fund loan processing and issuance fees equal to 0.40% of the total principal amount of loans insured during the fiscal year, 30% of payments received after October 7, 1998 for the administrative cost allowance for loans insured prior to that date and the 24% retention of collections on defaulted loans and other receipts as specified in regulations. An operating fund must be used for application processing, loan disbursement, enrollment and repayment status management, default aversion, collection activities, compliance monitoring, and other student financial aid related activities.

The Higher Education Act required the Secretary of Education to recall \$1 billion in federal reserve funds from guarantee agencies on September 1, 2002. Each guarantee agency was required to transfer its equitable share of the \$1 billion to a restricted account in equal annual installments for each of the five federal fiscal years 1998 through 2002 (or in certain cases over four federal fiscal years beginning in 1999). The guarantee agency’s required reserve ratio has been reduced from 1.1% to .5%.

The Higher Education Act provides for an additional recall of reserves from each federal fund, but also provide for certain minimum reserve levels which are protected from recall. The Secretary of Education is authorized to enter into voluntary, flexible agreements with guarantee agencies under which various statutory and regulatory provisions can be waived. In addition, under the Higher Education Act, the Secretary of Education is prohibited from requiring the return of all of a guarantee agency’s reserve funds unless the Secretary of Education determines that the return of these funds is in the best interest of the operation of the Federal Family Education Loan Program, or to ensure the proper maintenance of such guarantee agency’s funds or assets or the orderly termination of the guarantee agency’s operations and the liquidation of its assets. The Higher Education Act also authorizes the Secretary of Education to direct a guarantee agency to: (a) return to the Secretary of Education all or a portion of its reserve fund that the Secretary of Education determines is not needed to pay for the guarantee agency’s program expenses and contingent liabilities; and (b) cease any activities involving the expenditure, use or transfer of the guarantee agency’s reserve funds or assets which the Secretary of Education determines is a misapplication, misuse or improper expenditure. Under current law, the Secretary of Education is also authorized to direct a guarantee agency to return to the Secretary of Education all or a portion of its reserve fund which the Secretary of Education

determines is not needed to pay for the guarantee agency's program expenses and contingent liabilities.

Description of the Indenture

General

We have entered into the indenture with the indenture trustee and the eligible lender trustee which provides for the issuance of notes from time to time, as further provided in supplemental indentures. We have presently entered into two supplemental indentures providing for the issuance of the notes described under the caption "Previously Issued Notes" herein, and will enter into a supplemental indenture providing for the issuance of the series 2004-1 notes. See the caption "Description of the Series 2004-1 Notes" herein. We have also entered into two other supplemental indentures with respect to swap agreements, one of which is no longer outstanding and the other of which will terminate on March 31, 2004, and a supplemental indenture with respect to the sale of loans from the indenture. The following is a summary of the material terms of the indenture and certain terms of the supplemental indenture providing for the issuance of the series 2004-1 notes. The summary does not purport to be complete and is qualified in its entirety by reference to the provisions of the indenture and the supplemental indenture providing for the issuance of the series 2004-1 notes.

The indenture establishes the general provisions of notes issued by us thereunder and sets forth our various covenants and agreements relating thereto, default and remedy provisions, and responsibilities and duties of the indenture trustee and establishes the various funds into which our 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 indenture 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 indenture trustee will also deposit in the Acquisition Fund: (a) any funds to be transferred thereto from the Collection Fund, and (b) any other amounts specified in a supplemental indenture.

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 under the indenture; or (d) such other purposes related to our loan programs as may be provided in the supplemental indenture authorizing a series of notes. The indenture 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 indenture 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 our authorized officer as the amount expected to be needed to pay such guarantee fees due in the next month, the indenture trustee will transfer an amount equal to such deficiency to the Acquisition Fund from the Collection 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 under the indenture, as described under the caption “*Debt Service Fund*” below. If any amounts have been transferred to the Debt Service Fund as described in this paragraph, the indenture 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 under the caption “Source of Payment and Security for the Notes—Flow of Funds” herein.

Except as otherwise set forth in a supplemental indenture, we may direct the indenture trustee to sell to any purchaser one or more student loans financed with moneys in the Acquisition Fund (a) 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 (i) evidence the additional obligations of borrowers whose student loans have been previously financed under the indenture, or (ii) are to be substituted for financed student loans which are not eligible loans or (b) at a price equal to or greater than the principal balance of such student loan as of the sale date; provided, that we will 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. We have covenanted not to sell any student loans within the trust estate unless we reasonably determine, on the date of such sale, that the sale of such student loans will not adversely affect the sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth in the tables under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein.

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 the caption “Investments” below, and any income from said investments will be deposited in the Collection Fund.

Collection Fund. The indenture establishes a Collection Fund. The indenture trustee will credit to the Collection Fund: (a) 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); (b) unless otherwise provided in a supplemental indenture, proceeds of the sale of any financed student loans held in the Acquisition Fund; (c) any amounts transferred from the Acquisition Fund, the Administration Fund, the Capitalized Interest Fund and the Reserve Fund; (d) all amounts received as earnings on income from investment securities in the Acquisition Fund, the Reserve Fund, the Administration Fund, the Capitalized Interest Fund, the Collection Fund and the Debt Service Fund; (e) all amounts received as payments from us or on our behalf with respect to the T.H.E. Bonus Deposit; (f) all counterparty swap payments; and (g) any amounts received by the indenture trustee pursuant to the indemnification provisions of any joint sharing agreement.

On each monthly calculation date, the indenture trustee will allocate or transfer the moneys received during the preceding month in the Collection Fund as provided under the caption “Source of Payment and Security for the Notes—Flow of Funds” herein.

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

Administration Fund. With respect to each series of notes, the indenture 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 indenture trustee will also credit to the Administration Fund, all amounts transferred thereto from the Collection Fund. Amounts in the Administration Fund will be used to pay costs of issuance (to the extent provided by a supplemental indenture), the administrative allowance, the marketing and school services expense allowance and the note fees. For so long as any series 2004-1 notes shall be outstanding, we have covenanted and agreed that the note fees with respect to the series 2004-1 notes to be paid, or reimbursed to us, from the Administration Fund shall not, in any year, exceed the sum of (a) the annual fees of the indenture trustee, the eligible lender trustee and the market agents in effect as of the closing date, plus (b) the broker-dealer fees payable at the broker-dealer fee rate in effect as of the closing date, plus (c) the auction agent fees payable at the auction agent fee rate in effect as of the Closing Date, plus (d) the remarketing agent fees in effect as of the Closing Date, unless we deliver to the indenture trustee written confirmation from each of the rating agencies then rating the series 2004-1 notes to the effect that payment or reimbursement of such additional note fees will not result in a reduction or withdrawal of any rating of the series 2004-1 notes.

On each monthly calculation date, the indenture trustee will transfer to the Administration Fund from the Collection 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 we shall direct, for the payment of costs of issuance, the administrative allowance, the marketing and school services expense allowance or the note fees due during the next month.

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

Capitalized Interest Fund. From the proceeds of the series 2004-1 notes, the indenture trustee will, upon delivery thereof and from the proceeds thereof, credit to the Capitalized Interest Fund the amount of \$40,000,000.

The balance in the Capitalized Interest Fund will be used and applied solely to cure any deficiency in the allocations of amounts on deposit in the Collection Fund pursuant to clauses *First* through *Seventh* described under the caption “Source of Payment and Security for the Notes—Flow of Funds” herein. Amounts in the Capitalized Interest Fund will be transferred by the indenture trustee to the Collection Account at any time and to the extent that the amounts on deposit in the Collection Fund are insufficient to make the allocates in such clauses *First* through *Seventh* described under the caption “Source of Payment and Security for the Notes—Flow of Funds” herein.

We are not required to replenish amounts paid out of the Capitalized Interest Account and, on any monthly calculation date on which the balance in the Capitalized Interest Fund is greater than the required capitalized interest fund amount, the indenture trustee will deposit such excess into the Collection Fund. The “required capitalized interest fund amount” is initially \$40,000,000, which amount shall be reduced quarterly on each January 1, April 1, July 1 and October 1, commencing July 1, 2004, by \$2,500,000 until the amount on deposit in the Capitalized Interest Fund is equal to \$0, or has such other meaning set forth in a supplemental indenture.

Pending application of moneys in the Capitalized Interest 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.

Amounts on deposit in the Capitalized Interest Fund in excess of the required capitalized interest fund amount will be deposited into 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 under the indenture 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.

The supplemental indenture providing for the issuance of the series 2004-1 notes may provide that the amounts in the Debt Service Fund and the accounts therein may be held in the Collection Fund instead of the Debt Service Fund. In such case, the amounts held in the

Collection Fund instead of the Debt Service Fund shall be distributed in the same amounts and to the same persons or accounts as would be the case if such amounts were being held in the Debt Service Fund; provided, however, that amounts to be used to pay debt service shall not be retained in the Collection Fund but rather shall be transferred to the Debt Service Fund if the senior asset percentage is less than certain amounts designated in the indenture.

Interest Account. The indenture trustee will deposit in the Interest Account: (a) proceeds of the issuance of notes if directed by the supplemental indenture authorizing the notes; (b) that portion of the proceeds from the sale of our refunding bonds, notes or other evidences of indebtedness, if any, to be used to pay interest on the notes; (c) all payments under any credit enhancement facilities to be used to pay interest on the notes; and (d) 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 indenture 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 indenture 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 supplemental indenture providing for the issuance of the series 2004-1 notes provides that such deposits shall be made on the assumption that the auction rate 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 issuer swap payments or credit enhancement facility fees, as the case may be, are paid no less frequently than every 60 days, the indenture trustee shall deposit to the Interest Account on each monthly calculation date an amount equal to the issuer 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 issuer swap payments or credit enhancement facility fees, as the case may be, are paid less frequently than every 60 days, the indenture 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 issuer 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 indenture 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: (i) the Collection Fund, (ii) the Capitalized Interest Fund, (iii) the Reserve Fund and (iv) as to senior notes and other senior obligations under the indenture 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 indenture trustee will transfer to the Interest Account (to the extent amounts are available therefor in the Collection Fund, after taking into account all prior application of moneys therein 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 the caption “Investments” below, and any income from such investments will be deposited in the Collection Fund.

Principal Account. The indenture 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 (a) that portion of the proceeds from the sale of our bonds, notes or other evidences of indebtedness, if any, to be used to pay principal of the notes, (b) all payments under any credit enhancement facilities to be used to pay principal of notes and (c) 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 indenture trustee will make equal monthly deposits to the Principal Account on each of the 12 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 the caption “*Interest Account*” above): (i) the Collection Fund, (ii) the Capitalized Interest Fund, (iii) the Reserve Fund and (iv) as to senior notes and other senior obligations under the indenture 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 we determined 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 the caption “Investments” below, and any income from such investments will be deposited in the Collection Fund.

Retirement Account. The indenture trustee will deposit to the Retirement Account (a) any amounts transferred thereto from the Acquisition Fund, the Collection Fund, the Reserve Fund or the Principal Account to provide for the redemption, or the distribution of principal with respect to the notes; (b) that portion of the proceeds from the sale of our 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; (c) that portion of the proceeds of the sale or securitization of a financed student 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 (d) 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 the caption “Notes and Other Indenture Obligations—*Call for Redemption or Purchase of Notes*” below, amounts deposited to 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 we determined at such time.

The moneys in the Retirement Account will be invested in investment securities as described under the caption “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 from any other available moneys we may have 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 indenture 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 indenture trustee will transfer from the Collection Fund (to the extent not required for credit to the Administration Fund, the Debt Service Fund or the Acquisition Fund) an amount equal to the deficiency from moneys available therefor.

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 the caption “Debt Service Fund” above), and will be so used and applied by transfer by the indenture 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 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 our order, be transferred to the Collection Fund.

Pending transfers from the Reserve Fund, the moneys therein will be invested in investment securities as described under the caption “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 thereof, be tendered for purchase by us or on our behalf 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 the caption “Description of the Series 2004-1 Notes” herein for a more complete description of the terms of the series 2004-1 notes.

General Terms of Notes. Each series of notes has been or will be created by and issued pursuant to a supplemental indenture, which has designated the notes of that series as senior notes, subordinate notes or junior 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, payable solely from the revenues and assets 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 the administrative allowance, the marketing and school services expense allowance, the note fees, costs of issuance and capitalized interest on the notes, (d) making deposits to the Reserve Fund, and (e) such other purposes relating to our 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.

We are permitted to issue additional notes with principal distributions which are payable prior to, or concurrently with, the principal distributions on the LIBOR rate notes, and additional notes with stated maturities (or mandatory sinking fund payments) which are payable prior to, or concurrently with, the principal distributions on the LIBOR rate notes, if we reasonably determine, on the date of issuance of such additional notes, that the issuance of such additional notes will not adversely affect the sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth in the tables under the caption “Source of Payment and Security for the Notes—Debt Service Fund—Retirement Account” herein.

Comparative Security of Holders of the Notes and Other Beneficiaries. The senior notes will be equally and ratably secured under the indenture with any other senior obligations under the indenture. The senior obligations will have payment and certain other priorities over the subordinate notes and the other subordinate obligations under the indenture. The subordinate notes will be equally and ratably secured under the indenture with any other subordinate obligations under the indenture. See the caption “Source of Payment and Security for the Notes—Priorities” herein.

We may at any time issue a series of additional notes, as either senior notes or subordinate notes. In connection with any such senior notes or subordinate notes, we 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 the caption “Source of Payment and Security for the Notes—Additional Indenture Obligations” herein.

Call for Redemption or Purchase of Notes. No redemption (other than mandatory sinking fund redemption) of, or principal distribution with respect to, subordinate notes will be permitted under the indenture (except at their stated maturities) if there are any senior notes outstanding under the indenture unless we receive confirmation from each rating agency that such redemption will not cause the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes.

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. We 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 the execution and delivery of a swap agreement or obtain a credit enhancement facility unless the indenture 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 and delivery 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 established pursuant to the indenture 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. All rights of any swap counterparty under the indenture to consent to or direct certain remedies, waivers, actions and amendments hereunder, if any, shall cease for so long as such person is in default of any of its obligations or agreements under the applicable swap agreement.

We have covenanted not enter into any swap agreements unless we reasonably determine, on the date we enter into such swap agreement, that such swap agreement will not adversely affect the sufficiency of the amounts directed to make principal distributions on the LIBOR rate notes in accordance with the targeted balances set forth under the caption “Source of Payment and Security for the Notes—Debt Service Fund—*Retirement Account*” herein.

No counterparty shall have any consent rights, any voting rights, any waiver rights, any rights to direct remedies upon the occurrence of an event of default under the indenture, any rights to request the removal or replacement of the indenture trustee, or any other similar rights granted to the holders of the notes pursuant to the indenture; however, each counterparty shall have the right to consent to any amendments to the indenture that materially and adversely affects the amount, timing and priority of payments due to such counterparty.

Pledge; Encumbrances

The notes and all other indenture obligations constitute our limited obligations 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 our 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 indenture 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.

We have agreed not to 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 our bonds, notes or other evidences of indebtedness, the proceeds of which have been or will be used to refund or otherwise retire all or a portion of our outstanding notes or as otherwise provided in or permitted by the indenture. We have agreed not to 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 us from issuing obligations secured by revenues and assets 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 guarantee agency, we have agreed that we will (a) 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 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; (b) 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; and (c) 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 holders of the notes or other beneficiaries under the indenture. Notwithstanding the foregoing, we may amend any 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. We have agreed that we will 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 we are entitled with respect to such financed student loans, and all special allowance payments and all defaulted payments guaranteed by any guarantee agency which relate to such financed student loans.

Enforcement of Financed Student Loans. We have agreed that we 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 (a) any discount we make available to borrowers who make payments on financed student loans through automatic withdrawals; and (b) 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 to us thereunder. We have further agreed that, subject to the provisions of the Higher Education Act, we 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 our rights and privileges and the rights and privileges of the eligible lender trustee, the indenture trustee and the beneficiaries under or with respect to each financed student loan and agreement in connection therewith. We 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 us from (i) settling a default or curing a delinquency on any financed student loan on such terms as shall be permitted by law; (ii) amending the terms of a financed student loan to provide for a different rate of interest thereon to the extent permitted by law; or (iii) if the indenture 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. We have agreed to service and collect, or enter into one or more servicing agreements pursuant to which the servicers agree to service or collect, all student loans in accordance with all requirements of the Higher Education Act, the Secretary of Education, the indenture and each guarantee agreement with a standard of servicing as high as that for the servicing and collection of student loans. We have agreed 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 to us or to the indenture trustee thereunder, including all special allowance payments and all defaulted payments guaranteed by any guarantee agency which relate to any financed student loans. We 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 our rights and privileges or the rights and privileges of indenture trustee and the beneficiaries under or with respect to each servicing agreement. We have agreed 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, we 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.

No material change in the benefits given to obligors of student loans under our student loan program that would have a material adverse effect on the collections of financed student

loans may be made until each rating agency confirms that such change will not cause the withdrawal or reduction of any rating or ratings then applicable to any outstanding notes.

Limitation on Note Fees. We have covenanted and agreed in the supplemental indenture providing for the issuance of the series 2004-1 notes 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 2004-1 notes.

Tax-Exempt Status. We have agreed 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. We have agreed to maintain our existence as a corporation and not to dispose of all or substantially all of our 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 us unless either we are the surviving corporation or each of the following conditions is satisfied:

(a) the surviving, resulting or transferee entity, as the case may be, will 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 30 days before any merger, consolidation or transfer of assets becomes effective, we will give the indenture trustee written notice of the proposed transaction;

(c) immediately after giving effect to any merger, consolidation or transfer of assets, no event of default under the indenture has occurred and be continuing;

(d) each rating agency will 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, (i) any action as is necessary to maintain the lien and security interest created in favor of the indenture trustee by this indenture will have been taken; (ii) the surviving, resulting or transferee entity, as the case may be, will deliver to the indenture trustee an instrument assuming all of our obligations under the indenture and related agreements, together with any necessary consents; and (iii) we will deliver to the indenture 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.

Further Covenants

We will file financing statements and continuation statements in any jurisdiction necessary to perfect and maintain the security interest we have granted under the indenture.

Upon written request of the indenture trustee, we will permit the indenture trustee or its agents, accountants and attorneys, to examine and inspect the property, books of account, records, reports and other data relating to the student loans, and will furnish the indenture trustee such other information as it may reasonably request. The indenture trustee shall be under no duty to make any examination unless requested in writing to do so by the registered owners of 66% of the principal amount of the series 2004-1 notes, and unless those holders have offered the indenture trustee security and indemnity satisfactory to it against any costs, expenses and liabilities which might be incurred in making any examination.

Each year we will deliver to the indenture trustee a certification of its compliance with the terms and conditions of the indenture, and in the event of any noncompliance, a description of the nature and status thereof.

We will post on our website not less than quarterly and provide to the indenture trustee, and the indenture trustee will forward to each requesting holder, a statement setting forth information with respect to the series 2004-1 notes and the student loans pledged under the indenture as of the end of such period, including the following:

- the amount of principal payments made with respect to each series of series 2004-1 notes during the applicable period and the pool factor relating to the LIBOR rate notes;
- the amount of interest payments made with respect to each series of series 2004-1 notes during the applicable period;
- the principal balance of the student loans pledged under the indenture as of the close of business on the last day of the applicable period;
- the interest rate for the applicable series of series 2004-1 notes with respect to each quarterly distribution date;
- the number and principal amount of the student loans pledged under the indenture that we determine are delinquent; and
- the outstanding principal amount of the series 2004-1 notes as of the close of business on the last day of the applicable period.

A copy of these reports may be obtained by any holder of the series 2004-1 notes by a written request to the indenture trustee.

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:

- (a) Government Obligations;
- (b) 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 indenture 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;
- (c) obligations issued or guaranteed as to principal and interest by any of the following: (i) the Government National Mortgage Association; (ii) the Federal National Mortgage Association; or (iii) 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 (that mature by June 30, 2006), 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;
- (d) repurchase agreements or reverse repurchase agreements with banks (which may include the indenture 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;
- (e) any money market fund rated by each rating agency not lower than its highest applicable specific rating category;
- (f) any debt instrument rated by Moody's Investors Service, Inc. and Standard & Poor's Rating Services not lower than in their respective highest applicable

specific rating category, and, if rated by Fitch Ratings, rated not lower than its highest applicable specific rating category;

(g) any other investment if 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 treating such investment as an investment security.

provided, with respect to investments listed in clause (b) above, if the investment is for a period under thirty days, the related depository institution shall also have a long-term unsecured debt rating of at least “A1” by Moody’s Investors Service, Inc.; if the investment is for a period from thirty to ninety days, the depository institution shall also have a long-term unsecured debt rating of at least “Aa3” by Moody’s Investors Service, Inc., and if the investment is for a period from ninety to one hundred eighty days, the depository institution shall also have a long-term unsecured debt rating of “Aaa” by Moody’s Investors Service, Inc.

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 us on our 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 us 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 us in our obligation to purchase any subordinate note on a tender date therefor; or

(h) if no senior obligations are outstanding, default by us in the due and punctual payment of any amount owed by us 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 us on our obligation to purchase any junior subordinate note on a tender date therefor; or

(l) default by us in the performance of any of our 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 by us in the performance or observance of any other of the covenants, agreements or conditions 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 us by the indenture 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 under the indenture if we institute corrective action within such 30 days and diligently pursued such corrective action until the default is corrected; or

(n) certain events of bankruptcy or insolvency with respect to us.

Remedies

Whenever any event of default under the indenture shall have occurred and be continuing, the indenture trustee may (and, upon the written request of the acting beneficiaries upon default, the indenture trustee shall), by notice delivered to us in writing, 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 an event of default described in paragraph (m) under the caption “Events of Default” 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 indenture trustee, the acting

beneficiaries upon default, by written notice to us and the indenture trustee, may rescind and annul such declaration and its consequences if:

(a) there has been paid to or deposited with the indenture trustee by us or for our account, or provision satisfactory to the indenture trustee has been made for the payment of, a sum sufficient to pay:

(i) if senior obligations are outstanding: (A) all overdue installments of interest on all senior notes; (B) 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; (C) 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; (D) all other senior obligations under the indenture which have become due other than as a direct result of such declaration of acceleration; (E) all other sums required to be paid to satisfy our 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 (F) all sums paid or advanced by the indenture trustee under the indenture and the reasonable compensation, expenses, disbursements and advances of the indenture trustee, its agents and counsel and any paying agents, remarketing agents, tender agents, auction agents, market agents and broker-dealers; or

(ii) if no senior obligations are outstanding, but subordinate obligations are outstanding: (A) all overdue installments of interest on all subordinate notes; (B) 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; (C) 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; (D) all other subordinate obligations which have become due other than as a direct result of such declaration of acceleration; (E) all other sums required to be paid to satisfy our 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 (F) all sums paid or advanced by the indenture trustee under the indenture and the reasonable compensation, expenses, disbursements and advances of the indenture trustee, its agents and counsel and any paying agents, remarketing agents, tender agents, auction agents and broker-dealers; or

(iii) if no senior obligations and no subordinate obligations are outstanding but junior subordinate notes are outstanding: (A) all overdue installments of interest on all junior subordinate notes; (B) 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; (C) 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; (D) all other sums required to be paid to satisfy our 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 (E) all sums paid or advanced by the indenture trustee under the indenture and the reasonable compensation, expenses, disbursements and advances of the indenture trustee, its agents and counsel and any paying agents, remarketing agents, tender agents, auction agents, market agents and broker-dealers; and

(b) all Events of Default, other than the nonpayment of the principal of and interest on notes or other obligations under the indenture 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 under the indenture has occurred and is continuing, the indenture trustee may, subject to applicable law, pursue any available remedy by suit at law or in equity to enforce our covenants in the indenture and may pursue such appropriate judicial proceedings as the indenture 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 indenture 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 under the indenture 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 indenture trustee is obliged to exercise such one or more of the rights and powers conferred by the indenture as the indenture trustee shall deem most expedient in the interests of the beneficiaries; provided, however, that the indenture trustee has the right to decline to comply with any such request if the indenture trustee shall be advised by counsel that the action so requested may not lawfully be taken or if the indenture 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 indenture trustee shall not determine that the action so directed would be unjustly prejudicial to the holders of notes or other beneficiaries under the indenture not taking part in such direction, other than by effect of the subordination of any of their interests thereunder; and (c) the indenture trustee may take any other action deemed proper by the indenture 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 under the indenture 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 (a) an event of default under the indenture shall have occurred and be continuing; (b) the acting beneficiaries upon default shall have made written request to the indenture trustee; (c) such beneficiary or beneficiaries shall have offered to the indenture trustee indemnity; (d) the indenture 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 (e) no direction inconsistent with such written request shall have been given to the indenture 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 under the indenture. No one or more holders of the notes or any other beneficiary under the indenture 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 under the indenture 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; provided, however, that a swap counterparty shall only have the rights set forth in this paragraph if the event of default was caused by our failure to pay amounts owed to such swap counterparty under the applicable swap agreement or is due to the occurrence of one of the events listed in paragraph (n) under the caption “Events of Default” above.

Unless the indenture 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 indenture trustee will waive any event of default under the indenture and its consequences upon written request of the acting beneficiaries upon default; except that the indenture 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, we have paid or deposited with the indenture 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 our failure to pay unpaid expenses of the indenture 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, we have caused to be paid or deposited with the indenture trustee sums required to satisfy our obligations 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 indenture trustee or acting beneficiaries upon default to exercise any remedy available under the indenture.

Application of Proceeds

All moneys received by the indenture 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 indenture 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 under the indenture (excluding termination payments due under swap agreements), 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 holders of senior notes and to each other senior beneficiary under the indenture, without any discrimination or preference, and the indenture trustee will apply the amount so apportioned to the holders of the senior notes 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 under the indenture (excluding termination payments due under swap agreements), 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 holders of the Subordinate notes and to each other subordinate beneficiary under the indenture, without any discrimination or preference, and the indenture trustee will apply the amount so apportioned to the holders of the subordinate notes 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 under the indenture 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 holders of the junior subordinate notes, without any discrimination or preference, and the indenture trustee will apply the amount so apportioned to the holders of the junior

subordinate notes 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 holders of the Senior notes 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 holders of the subordinate notes 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 holders of the junior subordinate notes 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, 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, 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 under the indenture of all principal and interest then due on the senior notes and all other senior obligations under the indenture (excluding termination payments due under swap agreements), 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 under the indenture of the principal and interest then due on the subordinate notes and all other subordinate obligations under the indenture (excluding termination payments due under swap agreements), 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 holders of the senior notes 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 holders of the subordinate notes 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 holders of the junior subordinate notes 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, 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, 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 indenture trustee under the indenture will be applied in accordance with the provisions described in paragraph (a) above.

Indenture Trustee

Prior to the occurrence of an event of default under the indenture which has not been cured, the indenture 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 under the indenture, the indenture 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 indenture 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 indenture trustee may at any time resign upon 60 days' notice to us and to the beneficiaries under the indenture, such resignation to take effect upon the appointment of a successor indenture trustee. We may removed the indenture trustee at any time, and we will remove the indenture 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 under the indenture. No such removal will be effective until the appointment of a successor indenture trustee.

Supplemental Indentures

Supplemental Indentures Not Requiring Consent of Beneficiaries. We may, from time to time and at any time, without the consent of, or notice to, any of the holders of the notes or any other beneficiary under the indenture, enter into an indenture or indentures supplemental to the indenture with the indenture trustee 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 indenture trustee for the benefit of the beneficiaries under the indenture any additional rights, remedies, powers, authority or security;
- (c) describe or identify more precisely any part of the trust estate established pursuant to the indenture 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 indenture trustee under the indenture;
- (e) authorize the issuance of a series of additional notes, subject to the requirements of the indenture (see the caption “Description of the Indenture—Notes and Other Indenture Obligations—*Issuance of Additional Notes*” herein);
- (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 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 we receive written confirmation from each rating agency that such modifications will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes; and provided further that no such modifications will be effective if the consent of any holders of the notes would be required therefor under the proviso described under the caption “Supplemental Indentures Requiring Consent of Noteholders” below and such consent has not been obtained or if the indenture trustee determines that such modifications are to the prejudice of any other beneficiary;
- (h) create additional funds, accounts or sub-accounts under the indenture;
- (i) 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 we receive written confirmation from each rating agency that such additional class of indenture obligations will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes;

(j) 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

(k) make any other change in the indenture, if the indenture 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: (a) if they are affected thereby, the holders of not less than two-thirds of the aggregate principal amount of the outstanding senior notes; (b) if they are affected thereby, the holders of not less than two-thirds of the aggregate principal amount of the outstanding subordinate notes; (c) 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 (d) each other person which must consent to such supplemental indenture as provided in any supplemental indenture, the indenture trustee will join us 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: (i) 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; (ii) a reduction in the principal amount, redemption price or purchase price of any note or the rate of interest thereon; (iii) a privilege or priority of any senior obligation over any other senior obligation; (iv) a privilege or priority of any subordinate obligation over any other subordinate obligation, (v) a privilege of any senior notes over any subordinate notes or junior subordinate notes, other than as theretofore provided in the indenture; (vi) a privilege of any subordinate notes over any junior subordinate notes other than as provided herein; (vii) the surrendering of a privilege or a priority granted by the indenture if, in the judgment of the indenture trustee, to the detriment of another beneficiary under the indenture; (viii) a reduction or an increase in the aggregate principal amount of the notes required for consent to such supplemental indenture; (ix) the creation of any lien ranking prior to or on a parity with the lien of the indenture on the trust estate established thereunder or any part thereof, except as expressly permitted in the indenture; (x) any beneficiary to be deprived of the lien created on the rights, title, interest, privileges, revenues, moneys and securities pledged under the indenture; (xi) the modification of any of the provisions of the indenture described in this paragraph; or (xii) 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 Indenture Trustee. If, in the opinion of the indenture trustee, any supplemental indenture adversely affects the rights, duties or immunities of the indenture trustee under the indenture or otherwise, the indenture 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 indenture trustee of a written consent of the depository, the remarketing agent, the auction agent or the broker-dealer, as the case may be, to such supplemental indenture.

Discharge of Notes and Indenture

Our obligations under the indenture, and the liens, pledges, charges, trusts, covenants and agreements 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:

(a) when such note shall have been canceled, or shall have been purchased by the indenture trustee from moneys held by it under the indenture; or

(b) 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 (i) shall have been made in accordance with the terms of the indenture, or (ii) shall have been provided for by irrevocably depositing with the indenture trustee exclusively for such payment, (A) moneys sufficient to make such payment or (B) 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 indenture 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. Such definitions apply to the terms used in this offering memorandum whether or not the term used herein is capitalized.

“*Account*” means any of the accounts created within the funds established by the indenture.

“*Acquisition Fund*” means the Acquisition Fund created and established by the indenture.

“*Acting Beneficiaries Upon Default*” means:

(a) at any time that any senior obligations are outstanding: (i) with respect to directing the indenture trustee to accelerate the outstanding notes upon an event of default under the indenture (other than a covenant default), the holders of a majority in aggregate principal amount of senior notes outstanding; (ii) with respect to requesting the indenture 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 indenture trustee to waive events of default (A) the holders of a majority in aggregate principal amount of the senior notes outstanding, unless the indenture trustee shall receive conflicting requests or directions from any other senior beneficiary, or (B) any other senior beneficiary, unless the indenture 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 (iii) 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;

(b) at any time that no senior obligations are outstanding but subordinate obligations are outstanding: (i) with respect to directing the indenture trustee to accelerate the outstanding notes upon an event of default under the indenture, the holders of a majority in aggregate principal amount of subordinate notes outstanding; (ii) with respect to requesting the indenture 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 indenture trustee to waive events of default (A) the holders of a majority in aggregate principal amount of the subordinate notes outstanding, unless the indenture trustee receives conflicting requests or directions from any other subordinate beneficiary; or (B) any other subordinate beneficiary, unless the indenture 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 (iii) 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;

(c) 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;

(d) with respect to directing the indenture trustee to accelerate the outstanding notes upon a covenant event of default under the indenture, the holders of a majority in aggregate principal amount of senior notes outstanding, the subordinate notes outstanding and the junior subordinate notes outstanding, each voting as a class.

“*Administration Fund*” means the Administration Fund created and established by the indenture.

“*Administrative Allowance*” means a monthly allowance equal to one-twelfth 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 amounts as we may direct; provided that each rating agency has confirmed in writing that the payment of such increased amounts will not result in the withdrawal or reduction of any rating on the notes), which shall be released to us each month to cover servicing fees and our other expenses (other than note fees) incurred in connection with carrying out and administering our 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 established pursuant to the indenture.

“*All Hold Rate*” on any date of determination, means the applicable LIBOR-based rate less .25%, provided that in no event shall the applicable all hold rate be greater than the maximum rate.

“*Applicable Interest Rate*” means the rate of interest per annum borne from time to time by a series of the series 2004-1 notes, which shall be (a) during the initial interest period for such series, the initial interest rate identified in the supplemental indenture providing for the issuance of the series 2004-1 notes and (b) during each interest period thereafter, the rate of interest determined in accordance with the auction procedures.

“*Applicable LIBOR-Based Rate*” means (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 2004-1A-5 notes, April 27, 2004, with respect to the series 2004-1A-6 notes, May 18, 2004, with respect to the

series 2004-1A-7 notes, April 28, 2004, with respect to the series 2004-1A-8 notes, May 11, 2004 and, with respect to the series 2004-1B-1 notes, May 4, 2004, and thereafter, with respect to each such series of the auction rate notes, the business day immediately preceding the first day of each auction period for such series, other than:

- (a) an auction period commencing after the ownership of such series is no longer maintained in book-entry form by the securities depository;
- (b) an auction period commencing after and during the continuance of a payment default; or
- (c) 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 auction rate 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 supplemental indenture providing for the issuance of the series 2004-1 notes.

“*Auction Period Adjustment*” means, with respect to any series of the auction rate notes, our ability 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 auction rate notes, as set forth under the caption “Auction of the Auction Rate Notes” herein.

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

“*Auction Rate Notes*” means, collectively, the series 2004-1A-5 notes, the series 2004-1A-6 notes, the series 2004-1A-7 notes, the series 2004-1A-8 notes and the series 2004-1B-1 notes.

“*Authorized Denominations*” means (a) with respect to the LIBOR rate notes, \$1,000 and any integral multiple thereof and (b) with respect to the auction rate notes, \$50,000 and any integral 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 (a) the beneficial right to principal and interest may be transferred only through a book entry; and (b) 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 initially, with respect to the auction rate notes, Banc of America Securities LLC, Citigroup Global Markets Inc., Deutsche Bank Securities Inc. 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 by us pursuant to the supplemental indenture providing for the issuance of the auction rate notes; and (c) has entered into a broker–dealer agreement that is in effect on the date of reference.

“*Business Day*” means any day other a Saturday, Sunday, holiday or day on which banks located in the city of New York, New York, or the New York Stock Exchange or in the city in which the principal office of the indenture trustee is located are authorized or permitted by law or executive order to close and, with respect to the LIBOR rate notes, for purposes of calculating LIBOR, any day on which banks in New York, New York and London, England are open for the transaction of international business and, with respect to the auction rate notes, the term “business day” shall also exclude April 14, April 15, December 30, December 31, such other dates as we may agree with the market agent, the auction agent and the broker-dealer or any day on which the banks in the city in which the principal office of the auction agent is located are authorized or permitted by law or executive order to close.

“*Capitalized Interest Fund*” means the Capitalized Interest Fund created and established by the indenture.

“*Carry-Over Amount*” means the excess, if any, of (a) the amount of interest on a auction rate note that would have accrued with respect to the related auction period at the auction rate over (b) the amount of interest on such auction rate note actually accrued with respect to such auction rate 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.

“*Collection Fund*” means the Collection Fund created and established by the indenture.

“*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 us 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 us 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, (a) 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 (b) 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 us or by the indenture trustee and the credit facility provider with respect thereto.

“*Credit Facility Provider*” means any institution engaged by us 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 our obligation to purchase notes of one or more series on a tender date.

“*Date of Issuance*” means March 30, 2004, the date of initial issuance and delivery of the series 2004-1 notes.

“*Debt Service Fund*” means the Debt Service Fund created and established by the indenture.

“*Department of Education*” means U.S. Department of Education.

“*Eligible Carry-Over Make-Up Amount*” means, with respect to each interest period relating to a series of the auction rate 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 rate equals or exceeds the auction rate.

“*Eligible Lender Trust Agreement*” means our trust agreement dated as of November 1, 2000, with the eligible lender trustee, as trustee, and any similar agreement we enter into with an “eligible lender” under the Higher Education Act pursuant to which such eligible lender holds our student loans in trust, in each case as supplemented or amended from time to time.

“*Eligible Lender Trustee*” means U.S. Bank National Association, as successor trustee under the eligible lender trust agreement, and its successors and assigns in such capacity.

“*Eligible Loan*” means a student loan which: (i) has been or will be made to a borrower for post-secondary education; (ii) is guaranteed; and (iii) is an “eligible loan” as defined in Section 438 of the Higher Education Act for purposes of receiving special allowance payments

“*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 the caption “Description of the Indenture—Events of Default” herein.

“*Federal Family Education Loan 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.

“*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 student 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.

“*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, means student loans, eligible loans, FFELP loans, as the case may be, acquired or originated by us or the eligible lender trustee on our behalf with moneys in the Acquisition 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, 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 our 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.

“*Guarantee*” or “*Guaranteed*” means, with respect to a student 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 student loan and the coverage of such student 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 guarantee agreement with the eligible lender trustee, and any such guarantee agency’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 indenture 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 our indenture of trust, dated as of November 1, 2000, with the eligible lender trustee to the indenture trustee, as amended and supplemented from time to time.

“*Indenture Obligations*” means the senior obligations and the subordinate obligations.

“*Indenture Trustee*” means U.S. Bank National Association (f/k/a Firststar Bank, National Association), in its capacity as indenture 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.

“*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 Account*” means the Interest Account created and established by the indenture.

“*Interest Payment Date*” means (a) each regularly scheduled interest payment date on the series 2004-1 notes, which for each series of LIBOR rate notes shall be each quarterly distribution date and for each series of the auction rate notes shall be the business day immediately following the expiration of the initial interest period for such series and each related auction period thereafter; provided, however, if the duration of the interest period for an auction rate note is six months or longer, then the interest payment dates therefor shall be the quarterly payment dates and the first business day immediately following the end of such interest period; or (b) with respect to the payment of interest upon acceleration of the series 2004-1 notes or the payment of defaulted interest, such date on which such interest is payable under the indenture.

“*Interest Period*” means (a) with respect to the LIBOR rate notes, initially, the period commencing on the date of issuance through and not including the initial quarterly distribution date for the applicable series of the LIBOR rate notes, and, thereafter, each period commencing on a quarterly distribution date and ending on but excluding the next succeeding quarterly distribution date; and (b)(i) with respect to each series of the auction rate notes, unless otherwise changed as described in the supplemental indenture providing for the issuance of the series 2004-1 notes, initially, the period commencing on the date of issuance through and not including the initial interest rate adjustment date for the applicable series of the auction rate

notes, and, thereafter, each successive period of generally 28 days, commencing on the first business day following the applicable series auction date, and ending on (and including) the applicable series auction date (unless such date is not followed by a business day, in which case on the next succeeding day that is followed by a business day); and (ii) if the auction periods are changed as provided in the supplemental indenture providing for the issuance of the series 2004-1 notes, each period commencing on an auction distribution date and ending on but excluding the next succeeding auction distribution date. By way of example, if an interest period ordinarily would end on a Tuesday, but the following Wednesday is not a business day, the interest period will end on that Wednesday and the new interest period will begin on Thursday.

“Interest Rate Adjustment Date” means (a) with respect to the LIBOR rate notes, each Quarterly Distribution Date and (b) with respect to the auction rate notes, the date on which the interest rate on a series of the auction rate notes is effective, which for each series of the auction rate notes shall be the date of commencement of each auction period for such series.

“Interest Rate Determination Date” means, for each series of the auction rate 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.

“Issuer Swap Payment” means a payment we owe to a swap counterparty pursuant to the applicable swap agreement (including, but not limited to, payments in respect of any early termination of such swap agreement).

“Joint Sharing Agreement” means our amended and restated joint sharing agreement, dated as of November 15, 2002 with U.S. Bank National Association (f/k/a Firstar Bank, National Association), NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C., NorthStar T.H.E. Funding III, L.L.C., as supplemented and amended. The joint sharing agreement provides that each of the parties thereto will indemnify each of the other parties thereto for any interest subsidy payments, special allowance payments or guarantee payments which have been withheld by the Department of Education or a guaranty agency due to an overpayment of such amounts to the indemnifying party or its eligible lender trustee.

“Junior 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 (i) all accrued interest on outstanding notes, (ii) all accrued issuer swap payments, and (iii) all accrued fees with respect to credit enhancement facilities, by (b) the aggregate principal amount of outstanding notes.

“Junior Subordinate Beneficiaries” means 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 we (or our eligible lender trustee on our behalf) acquires financed student loans, which must be an “eligible lender” (as defined in the Higher Education Act).

“*LIBOR*” means, with respect to any interest period for the LIBOR rate notes, the London interbank offered rate for deposits in U.S. dollars having a maturity of three months which appears on Telerate Page 3750 as of 11:00 a.m., London time, on the related LIBOR determination date as determined by the indenture trustee or its agent. If this rate does not appear on Telerate Page 3750, the rate for that day will be determined on the basis of the rates at which deposits in U.S. dollars, having a maturity of three months and in a principal amount of not less than U.S. \$1,000,000, are offered at approximately 11:00 a.m., London time, on that LIBOR determination date, to prime banks in the London interbank market by the reference banks. The indenture trustee will request the principal London office of each reference bank identified to it by us to provide a quotation of its rate. If the reference banks provide at least two quotations, the rate for that day will be the arithmetic mean of the quotations. If the reference banks provide fewer than two quotations, the rate for that day will be the arithmetic mean of the rates quoted by major banks in New York City, selected by us at approximately 11:00 a.m., New York time, on that LIBOR determination date, for loans in U.S. dollars to leading European banks having a maturity of three months and in a principal amount of not less than U.S. \$1,000,000. If the banks selected as described above are not providing quotations, LIBOR in effect for the applicable interest period will be the LIBOR in effect for the previous interest period.

“*LIBOR Determination Date*” means (a) with respect to the LIBOR rate notes, for each interest period, the second business day immediately preceding the first day of that interest period and (b) with respect to the auction rate notes, the auction date, or if no auction date is applicable, the business day immediately preceding the first day of each interest period.

“*LIBOR Rate Notes*” means, collectively, the series 2004-1A-1 notes, the series 2004-1A-2 notes, the series 2004-1A-3 notes and the series 2004-1A-4 notes.

“*Marketing and School Services Expense Allowance*” means a monthly allowance equal to one-twelfth of 0.1% 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 we may direct (provided that we receive written confirmation from each rating agency that the increase in such amounts will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes).

“*Maximum Auction Rate*” means, for any auction, a per annum interest rate on the auction rate notes which, when taken together with the interest rate on the auction rate 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 auction rate notes for such period either (a) not being in excess (on a per annum basis) of the average of the 91-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 such series of the auction rate notes are “Aa3” or “AA-” or better); (b) not being in excess (on a per annum basis) of the 91-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 such series of the auction rate 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 91-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 such series of the auction rate notes is less than the lowest category of “A”); provided, however, that if the auction rate notes have not been outstanding for at least such one-year period then for any portion of such period during which such auction rate notes were not outstanding, the interest rates on such series of the auction rate 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 our direction upon receipt by the indenture trustee of (i) written consent of the market agent; and (ii) written consent from each rating agency then rating the series 2004-1 notes that such change will not in and of itself result in a reduction of the rating on any series 2004-1 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 91-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 indenture trustee of a certificate signed by us directing such increase, together with written confirmations from each rating agency that such increase will not cause the reduction or withdrawal of any rating or ratings then applicable to any outstanding notes.

“*Maximum Interest Rate*” means the lesser of (a) 18% per annum or (b) the highest rate we may legally pay, from time to time, as interest on the series 2004-1 notes.

“*Maximum Rate*” on any date of determination, means the interest rate per annum equal to the least of: (a) the maximum auction rate; (b) the maximum interest rate; (c) the sum of (i) one-month LIBOR and (ii) 1.00%; and (d) during the occurrence of a net loan rate restriction period, the net loan 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).

“*Net Loan Rate*” means, with respect to any auction period, (a) the rate of interest per annum (rounded to the next highest 0.01%) equal to the adjusted student loan portfolio rate of return for the calendar month immediately preceding such auction period, as we determine on the last day of such calendar month, less (b) the program expense percentage with respect to such auction period. “*Adjusted Student Loan Portfolio Rate of Return*” means, for any calendar month, the amount determined by dividing (i) the product of 12 times the sum of the following amounts accrued during such calendar month (whether or not actually received or paid): (A) interest (including interest subsidy payments) and special allowance payments with respect to the financed student loans plus (B) any swap counterparty payments minus (C) any amount required to be paid to the Department of Education or to be repaid to guarantee agencies with respect to the financed student loans that do not qualify for guarantees, minus (D) the aggregate amount of default claims filed during the month with respect to financed student loans which (1) exceed the amount the guarantee agency is required to pay under the applicable guarantee

agreement or (2) are payable only by a guarantee agency that is in default of its guarantee obligations with respect to financed student loans and has not provided collateral security sufficient to pay such claims, minus (E) any reduction in the interest as a result of borrower incentive programs, other than the T.H.E. Bonus program, minus (F) any swap agreement payments we are required to make; by (ii) the average daily outstanding principal balance of the financed student loans during such calendar month. For this purpose, the special allowance payment shall be computed based upon the average of the bond equivalent rates of 91-day United States Treasury bills auctioned, or the commercial paper rates published, during that portion of the then current calendar quarter.

“*Net Loan Rate Restriction Period*” means, with respect to any series of the auction rate notes, the period of time from and including a net loan rate trigger date to but excluding a net loan rate termination date.

“*Net Loan Rate Termination Date*” means, for a series of the auction rate notes for which the net loan rate trigger date has occurred, the first day of an auction period which immediately follows three consecutive auction dates for such series of the auction rate notes where (a) if the net loan trigger rate occurred due to the auction rate exceeding 91-day United States Treasury bill rate in effect as of each such auction date plus 1.0%, the auction rate established on each such auction date for such series was equal to or less than a per annum rate equal to the sum of (i) the 91-day United States Treasury bill rate in effect as of each such auction date plus (ii) 1.0% or (b) if the net loan trigger rate occurred due to one-month LIBOR exceeding the 90-day commercial paper rate by more than 0.30%, one-month LIBOR did not exceed the 90-day commercial paper rate by more than 0.30%.

“*Net Loan Rate Trigger Date*” means, for a series of the auction rate notes, the first day of an auction period which immediately follows six consecutive auction dates for such series of the auction rate notes where (a) the auction rate established on each such auction date for such series exceeded a per annum rate equal to the sum of (i) the 91-day United States Treasury bill rate in effect as of each such auction date plus (ii) 1.0% or (b) one-month LIBOR exceeded the 90-day commercial paper rate by more than 0.30%.

“*90-Day Commercial Paper Rate*” means the 90-day financial CP rate reported in the Federal Reserve’s Statistical Release H-15.

“*91-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.

“*Non-Payment Rate*” shall mean for any determination date, a rate per annum equal to the lesser of (a) the sum of (i) one-month LIBOR and (ii) 150 basis points and (b) the maximum interest rate.

“*NorthStar*” means NorthStar Education Finance, Inc., a nonstock nonprofit corporation duly organized and existing under the laws of the State of Delaware, and any successor or assignee thereto.

“*Note Fees*” means the fees, costs and expenses (excluding costs of issuance) of the indenture 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 us in carrying out and administering its powers, duties and functions under (a) the repurchase agreement, any servicing agreement, the eligible lender trust agreement, the guarantee agreements, our student loan program, the Higher Education Act, or any requirement of the laws of the United States or any State with respect to our student loan program, as such powers, duties and functions relate to financed student loans; (b) any swap agreements and any credit enhancement facilities (other than any amounts payable thereunder which constitute other indenture obligations); (c) any remarketing agreement, tender agent agreement, auction agent agreement, market agent agreement or broker-dealer agreement; and (d) the indenture.

“*Notes*” means all of our notes issued pursuant to the indenture.

“*One-Month LIBOR*,” “*Three-Month LIBOR*,” “*Six-Month LIBOR*” or “*One-Year LIBOR*” means, with respect to the auction rate notes, the offered rate, as determined by the auction agent or indenture 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 indenture 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 indenture trustee, as applicable, are quoting on the relevant LIBOR determination date 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.

“*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 our 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 our 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 which we own; 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 the auction rate notes, (a) a default in the due and punctual payment of any installment of interest on such series, or (b) the circumstance that on any auction date, there are insufficient moneys in the Debt Service Fund to pay, or otherwise held by the indenture trustee under the indenture and available to pay, the principal of and interest due on the auction rate notes of such series on the applicable auction distribution date immediately following such auction date.

“*Principal Account*” means the Principal Account created and established by the indenture.

“*Principal Balance*” when used with respect to a financed student loan, means the unpaid principal amount thereof.

“*Quarterly Distribution Date*” means the 28th day of each January, April, July and October, commencing July 28, 2004.

“*Rating Agency*” means (a) with respect to the notes, any rating agency that shall have an outstanding rating on any of the notes pursuant to our request; and (b) with respect to investment securities, any rating agency that has an outstanding rating on the applicable investment security.

“*Reference Banks*” means, with respect to a determination of LIBOR for any interest period by the indenture trustee, four major banks in the London interbank market selected by us.

“*Repurchase Agreement*” means our repurchase agreement, dated as of November 1, 2000, with NorthStar Capital Markets Services, Inc., the eligible lender trustee and U.S. Bank National Association (f/k/a Firststar Bank, National Association), as eligible lender trustee for NorthStar Capital Markets Services, Inc., providing for the repurchase of any student loan which ceases to be an eligible loan, and any similar agreement.

“*Required Capitalized Interest Fund Amount*” means initially \$40,000,000, which amount shall be reduced quarterly on each January 1, April 1, July 1 and October 1, commencing

July 1, 2004, by \$2,500,000 until the amount on deposit in the Capitalized Interest Fund is equal to \$0, or has such other meaning set forth in a supplemental indenture.

“*Reserve Fund*” means the Reserve Fund created and established by the indenture.

“*Reserve Fund Requirement*” means, with respect to the series 2004-1 notes at any time, an amount equal to (a) 0.75% of the aggregate principal amount of the series 2004-1 notes then outstanding, or (b) 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 \$1,000,000.

“*Retirement Account*” means the Retirement Account created and established by the indenture.

“*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 The Depository Trust Company or, if (a) the then-existing securities depository resigns from its functions as depository of the series 2004-1 notes or (b) we discontinue 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 2004-1 notes and which we select with the consent of the indenture 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 (i) all accrued interest on outstanding senior notes, (ii) all accrued issuer swap payments with respect to senior swap agreements, and (iii) 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 105.00% and the subordinate asset percentage is at least equal to 100.75%.

“*Senior Beneficiaries*” means (a) the holders of any outstanding senior notes, and (b) 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 authorized.

“*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 authorized.

“*Senior Swap Counterparty*” means any person or entity who provides a senior swap agreement.

“*Series Auction Date*” means (a) Tuesday, with respect to the series 2004-1A-5 notes, (b) Tuesday, with respect to the series 2004-1A-6 notes, (c) Wednesday, with respect to the series 2004-1A-7 notes, (d) Tuesday, with respect to the series 2004-1A-8 notes and (e) Tuesday, with respect to the series 2004-1B-1 notes.

“*Series 2004-1 Notes*” means the notes issued pursuant to the indenture and offered by this offering memorandum in the original principal amount of \$1,000,000,000.

“*Series 2004-1A Notes*” means, collectively, the series 2004-1A-1 notes, the series 2004-1A-2 notes, the series 2004-1A-3 notes, the series 2004-1A-4 notes, the series 2004-1A-5 notes, the series 2004-1A-6 notes, the series 2004-1A-7 notes and the series 2004-1A-8 notes.

“*Servicer*” means any organization with which we, or our 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 pledged under the indenture.

“*Servicing Agreement*” means any agreement we have with a servicer (or with a servicer and our eligible lender trustee) under which the servicer agrees to act as our agent in connection with the administration and collection of financed student loans in accordance with the indenture, including our servicing agreement, dated November 1, 2000, with Great Lakes Higher Education Servicing Corporation and U.S. Bank National Association, as amended and assigned to Great Lakes Educational Loan Services, Inc.

“*Servicing Fees*” means any fees we are required to pay to (a) a servicer in respect of financed student loans pursuant to the provisions of a servicing agreement and (b) 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 (i) all accrued interest on outstanding senior notes and outstanding subordinate notes, (ii) all accrued issuer swap payments, and (iii) 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 (a) the holders of any outstanding subordinate notes, and (b) 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 authorized.

“*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 authorized.

“*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 we have with a swap counterparty as supplemented or amended from time to time.

“*Swap Counterparty*” means any person or entity with whom we shall, from time to time, enter into a swap agreement.

“*Targeted Balance*” means, for each series of LIBOR rate notes and each quarterly distribution date, the amount listed under the caption “Source of Payment and Security for the

Notes—Debt Service Fund—*Retirement Account*” herein as the targeted balance for each such series on such quarterly distribution date.

“*Telerate Page 3750*” means the display page so designated on the Telerate Service (or such other page as may replace that page on that service for the purpose of displaying comparable rates or prices).

“*Tender Date*” means, with respect to any note, a date on which such note is required to be tendered for purchase by us or on our behalf, or has been tendered for purchase by us or on our behalf 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 up 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) (75 basis points per annum with respect to consolidation loans) calculated and transferred monthly from the collection account on each monthly calculation date. Such amounts shall be made through July 1, 2006, unless extended or amended, as to timing or amount by us (provided that we give written notice to each rating agency and receive written confirmation from Moody’s Investors Service, Inc. and Fitch Ratings that such extension or amendment will not cause the reduction or withdrawal of their rating or ratings then applicable to any outstanding notes).

“*Transferor*” means collectively, NorthStar T.H.E. Funding, LLC, NorthStar T.H.E. Funding II, L.L.C. and NorthStar T.H.E. Funding III, L.L.C., Delaware limited liability companies of which we are the sole member.

“*Trust Estate*” means all of our rights, title, interest and privileges and/or the our rights, title, interest and privileges of the eligible lender trustee (a) 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; (b) 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, the Administration Fund, the Capitalized Interest Fund, the Debt Service Fund and the Reserve Fund, in the manner and subject to the prior applications provided in the indenture; and (c) 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 to receive any of the same whether now existing or hereafter coming into existence, and whether now or hereafter acquired.

“*Value*” means, on any calculation date when required under the indenture, our calculation of the value of the trust estate, in accordance with the following:

(a) with respect to any eligible loan, the principal balance thereof, plus accrued interest and special allowance payments thereon;

(b) with respect to any of our funds 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;

(c) 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;

(d) as to other investments, (i) the bid price published by a nationally recognized pricing service, or (ii) 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;

(e) 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 us in our absolute discretion) at the time making a market in such investments, plus accrued interest thereon; and

(f) any accrued but unpaid swap counterparty payment, unless the swap counterparty is in default of its obligations under the swap agreement.

The Indenture Trustee and the Eligible Lender Trustee

U.S. Bank National Association, a national banking association organized under the laws of the United States, is the indenture trustee under the indenture. The office of the indenture 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 Federal Family Education Loan Program. Because we do not qualify as an “eligible lender” under the Higher Education Act, U.S. Bank National Association, in its capacity as eligible lender trustee will hold title on our behalf to all of the student loans pledged under the indenture. See the caption “The Issuer—Eligible Lender Trustee” herein.

United States 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 2004-1 note by certain persons. This summary does not consider all the possible Federal tax consequences of the purchase, ownership or disposition of the series 2004-1 note 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 2004-1 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 2004-1 note is sold; and (b) who hold the series 2004-1 note 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 2004-1 note (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 2004-1 note and one or more other investments, or purchasers that have a “functional currency” other than the U.S. dollar. Except to the extent discussed under “Non-United States Holders” below this summary is not applicable to non-United States persons not subject to federal income tax on their worldwide income. This summary is based upon the United States federal tax laws and regulations currently in effect and as currently interpreted and does not take into account possible changes in the tax laws or its interpretations, any of which may be applied retroactively. It does not discuss the tax laws of any state, local or foreign governments.

Persons considering the purchase of series 2004-1 note 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 2004-1 Note as Indebtedness. In the opinion of Chapman and Cutler LLP, based upon certain assumptions and certain representations of NorthStar, the series 2004-1 note 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 LLP 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 2004-1 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 2004-1 notes as debt, the transaction were treated as creating a partnership among the holders of the series 2004-1 notes 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 holder of a series 2004-1 note 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 holder of the series 2004-1 note may differ if the series 2004-1 note 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 holders of the series 2004-1 notes. Cash payments to the holders of the series 2004-1 notes 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 holders of the series 2004-1 notes were deemed to have acquired stock or other equity interests in NorthStar. However, as noted above, NorthStar has been advised that the series 2004-1 note will be treated as debt for federal income tax purposes.

NorthStar expresses in the indenture its intent that, for applicable tax purposes, the series 2004-1 note will be indebtedness of NorthStar secured by the trust estate. NorthStar and the holders of the series 2004-1 notes, by accepting the series 2004-1 note, have agreed to treat the series 2004-1 note as indebtedness of NorthStar for federal income tax purposes. NorthStar intends to treat this transaction as a financing reflecting the series 2004-1 note 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 2004-1 note will be taxable to an owner who or which is (a) a citizen or resident of the United States; (b) a corporation created or organized under the laws of the United States or any State (including the District of Columbia); or (c) 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 2004-1 note, 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 2004-1 note should consult their tax advisors.

Although the matter is not free from doubt, it is anticipated that the series 2004-1 note 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 2004-1 note in a manner consistent with this treatment. If it were to be determined that the series 2004-1 note do not provide for stated interest at qualified floating rates, the series 2004-1 note would be treated as having been issued with original issue discount. In that event, the holder of a series 2004-1 note 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 2004-1 note were treated as issued with original issue discount under these circumstances, the amount which a holder of a series 2004-1 note would be required to include in income currently under this method would not differ materially from the amount of interest on the series 2004-1 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 holder’s method of accounting.

Series 2004-1 Note Purchased at a Market Discount. A series 2004-1 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 2004-1 note less the holder’s basis in a series 2004-1 note. Thus, market discount generally will occur where a holder acquires a series 2004-1 note for an amount that is less than the series 2004-1 note’s issue price (or revised issue price if a series 2004-1 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 2004-1 Note. A United States holder's tax basis in a series 2004-1 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 2004-1 note. A United States holder generally will recognize gain or loss on the sale, exchange or retirement of a series 2004-1 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 2004-1 note. Except to the extent described under "Series 2004-1 Note purchased at a Market Discount" above and except to the extent attributable to accrued but unpaid interest, gain or loss recognized on the sale, exchange or retirement of a series 2004-1 note will be capital gain or loss and will be long-term capital gain or loss if the series 2004-1 note was held for more than one year. In the event that the series 2004-1 note were treated as issued with original issue discount as a result of the carry-over amounts, as discussed under the caption "Payments of Interest" above, a portion of this gain attributable to interest accrued under the original issue discount rules may 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 may 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 2004-1 note 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 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 (a) 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 (b) in general, either (i) 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, among other things, its name and address or (ii) 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 2004-1 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 2004-1 note.

If a non-United States holder is engaged in a trade or business in the United States and interest on the series 2004-1 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 2004-1 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 2004-1 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 2004-1 note 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 2004-1 note 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.

Treasury regulations also 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 2004-1 note 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 2004-1 note.

Information Reporting and Back-up Withholding

For each calendar year in which the series 2004-1 note 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 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 currently equal to 28% of each payment of interest and any premium on the series 2004-1 note. 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 2004-1 note if the holder has provided the required certification that it is not a United States person as set forth in clause (b) 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 2004-1 note to or through a foreign office of a broker will not be subject to information reporting or backup withholding. However, information reporting may apply to those payments if the broker is one of the following:

- (a) a United States person;
- (b) a controlled foreign corporation for United States tax purposes;
- (c) a foreign person 50% 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
- (d) a foreign partnership with certain connections to the United States.

Payment of the proceeds from a sale of a series 2004-1 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 otherwise establishes an exemption from information reporting and backup withholding.

Recently issued Treasury regulations also 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 2004-1 note, 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 "United States Federal Income Tax Consequences," potential investors should consider the state income tax consequences of the acquisition, ownership and disposition of the series 2004-1 note. 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 2004-1 note.

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 2004-1 note 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 2004-1 note 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 2004-1 note should be treated as debt without substantial equity features for purposes of the Plan Assets Regulation.

However, without regard to whether the series 2004-1 note are treated as an equity interest for such purposes, the acquisition or holding of series 2004-1 note by or on behalf of a Benefit Plan could be considered to give rise to a prohibited transaction if NorthStar or the indenture 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 2004-1 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 2004-1 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 2004-1 note 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 2004-1 note 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.

Reports to Noteholders

Periodic reports concerning us will be delivered to holders of the series 2004-1 notes. So long as Cede & Co., as nominee of The Depository Trust Company is registered holder of the notes, you will receive reports through the participants in The Depository Trust Company. See the caption "Book-Entry Registration" herein.

Underwriting

Subject to the terms and conditions set forth in a note purchase agreement with Banc of America Securities LLC, on behalf of the underwriters, we have agreed to sell to the underwriters, and the underwriters have severally agreed to purchase from us, the respective aggregate principal amounts of the series 2004-1 notes set forth below:

LIBOR Rate Notes

<u>Underwriter</u>	<u>Series 2004-1A-1 Notes</u>	<u>Series 2004-1A-2 Notes</u>	<u>Series 2004-1A-3 Notes</u>	<u>Series 2004-1A-4 Notes</u>
Banc of America Securities LLC	\$33,333,334	\$75,000,000	\$66,666,668	\$75,000,000
Citigroup Global Markets Inc.	33,333,333	75,000,000	66,666,666	75,000,000
Deutsche Bank Securities Inc.	<u>33,333,333</u>	<u>75,000,000</u>	<u>66,666,666</u>	<u>75,000,000</u>
Total	<u>\$100,000,000</u>	<u>\$225,000,000</u>	<u>\$200,000,000</u>	<u>\$225,000,000</u>

Auction Rate Notes

<u>Underwriter</u>	<u>Series 2004-1A-5 Notes</u>	<u>Series 2004-1A-6 Notes</u>	<u>Series 2004-1A-7 Notes</u>	<u>Series 2004-1A-8 Notes</u>	<u>Series 2004-1B-1 Notes</u>
Banc of America Securities LLC	\$66,000,000	\$66,000,000	\$ -0-	\$ -0-	\$30,000,000
Citigroup Global Markets Inc.	-0-	-0-	44,000,000	-0-	-0-
Deutsche Bank Securities Inc.	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>44,000,000</u>	<u>-0-</u>
Total	<u>\$66,000,000</u>	<u>\$66,000,000</u>	<u>\$44,000,000</u>	<u>\$44,000,000</u>	<u>\$30,000,000</u>

The underwriters have agreed to purchase all of the series 2004-1 notes listed above if any of the series 2004-1 notes are purchased. The underwriters have advised that they propose to offer the series 2004-1 notes to the public initially at the respective offering prices set forth below and on the cover page of this offering memorandum, and to certain dealers at these prices less concessions not in excess of the concessions listed below. The underwriters may allow and such dealers may reallow concessions to other dealers not in excess of the reallowances listed below. After the initial public offering, these prices and concessions may change.

	<u>Initial Public Offering Prices</u>	<u>Underwriting Discount</u>	<u>Proceeds to the Issuer⁽¹⁾</u>	<u>Concessions</u>	<u>Reallowance</u>
Per Series 2004-1A-1 Note	100.00%	0.24%	99.76%	0.144%	0.072%
Per Series 2004-1A-2 Note	100.00%	0.28%	99.72%	0.168%	0.084%
Per Series 2004-1A-3 Note	100.00%	0.32%	99.68%	0.192%	0.096%
Per Series 2004-1A-4 Note	100.00%	0.32%	99.68%	0.192%	0.096%
Per Series 2004-1A-5 Note	100.00%	0.26%	99.74%	0.156%	0.078%
Per Series 2004-1A-6 Note	100.00%	0.26%	99.74%	0.156%	0.078%
Per Series 2004-1A-7 Note	100.00%	0.26%	99.74%	0.156%	0.078%
Per Series 2004-1A-8 Note	100.00%	0.26%	99.74%	0.156%	0.078%
Per Series 2004-1B-1 Note	100.00%	0.35%	99.65%	0.210%	0.105%
Total	\$1,000,000,000	\$2,907,000	\$997,093,000		

⁽¹⁾Before deducting expenses estimated to be \$753,000.

Until the distribution of the series 2004-1 notes is completed, the rules of the SEC may limit the ability of the underwriters and selling group members to bid for and purchase the series 2004-1 notes. As an exception to these rules, the underwriters are permitted to engage in transactions that stabilize the price of the series 2004-1 notes. These transactions consist of bids of purchase for the purpose of pegging, fixing or maintaining the price of the series 2004-1 notes.

Purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of those purchases.

In addition, the underwriters may impose a penalty bid on the broker-dealers who sell the series 2004-1 notes. This means that if an underwriter purchases the series 2004-1 notes in the open market to reduce a broker-dealer's short position or to stabilize the prices of the series 2004-1 notes, it may reclaim the selling concession from the broker-dealer who sold those series 2004-1 notes as part of the offering.

In general, over-allotment transactions and open market purchases of the series 2004-1 notes for the purpose of stabilization or to reduce a short position could cause the price of a series 2004-1 note to be higher than it might be in the absence of such transactions.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the prices of the series 2004-1 notes. In addition, neither we nor any of the underwriters make any representation that the underwriters will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

The underwriters have advised us that they presently intend to make a market in the series 2004-1 notes; however, they are not obligated to do so. In addition, any market-making may be discontinued at any time, and an active public market for the notes may not develop.

From time to time, the underwriters or their affiliates may perform investment banking and advisory services for, and may provide general financing and banking services to, us or our affiliates.

Banc of America Securities LLC will initially be the sole broker-dealer with respect to the series 2004-1A-5 notes, the series 2004-1A-6 notes and the series 2004-1B-1 notes. Citigroup Global Markets Inc. will initially be the sole broker-dealer with respect to the

series 2004-1A-7 notes. Deutsche Bank Securities Inc. will initially be the sole broker-dealer with respect to the series 2004-1A-8 notes.

The note purchase agreement provides that we will indemnify the underwriters against certain liabilities, including liabilities under applicable securities laws, or contribute to payments the underwriters may be required to make in respect thereof.

Banc of America Securities LLC and Citigroup Global Markets Inc. also provide warehouse facilities to certain of the NorthStar Companies for the acquisition and origination of student loans.

Legal Matters

Certain legal matters relating to us and federal income tax matters will be passed upon by Mark A. Lindgren, Esq., our Vice President and General Counsel, and by Chapman and Cutler LLP. Certain legal matters will be passed upon for the underwriters by Kutak Rock LLP.

Ratings

It is a condition of issuance of the series 2004-1A notes that Moody's Investors Service, Inc. rate the series 2004-1A notes "Aaa" and the series 2004-1B-1 notes "A2," that Standard & Poor's Rating Services rate the series 2004-1A notes "AAA" and the series 2004-1B-1 notes "A" and that Fitch Ratings rate the series 2004-1A notes "AAA" and the series 2004-1B-1 notes "A." 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 2004-1 notes address the likelihood of the ultimate payment of principal of and interest on the series 2004-1 notes pursuant to their terms. The rating agencies do not evaluate, and the ratings on the series 2004-1 notes do not address, the likelihood of redemptions on the series 2004-1 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. We have not authorized anyone to provide you with different information. The series 2004-1 notes are not offered in any jurisdiction where the offer is not permitted.

We have 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.

You can find the definitions of words and terms used herein under the caption "Glossary of Certain Defined Terms" herein.

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NorthStar Education Finance, Inc.

**Student Loan
Asset-Backed Notes
Series 2004-1**

Series 2004-1A-1 LIBOR Rate Notes

Series 2004-1A-2 LIBOR Rate Notes

Series 2004-1A-3 LIBOR Rate Notes

Series 2004-1A-4 LIBOR Rate Notes

Series 2004-1A-5 Auction Rate Notes

Series 2004-1A-6 Auction Rate Notes

Series 2004-1A-7 Auction Rate Notes

Series 2004-1A-8 Auction Rate Notes

Series 2004-1B-1 Auction Rate Notes

OFFERING MEMORANDUM

Banc of America Securities LLC

Citigroup

Deutsche Bank Securities

March 22, 2004

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