



**\$700,000,000**

**SOUTH CAROLINA STUDENT LOAN CORPORATION  
EDUCATION LOAN REVENUE BONDS, 2005 SERIES**

We are offering the following bonds:

	<u>Original Principal Amount</u>	<u>Interest Rate</u>	<u>Stated Maturity</u>	<u>Price To Public</u>	<u>Underwriting Discount</u>	<u>Proceeds to Corporation<sup>(1)</sup></u>	<u>CUSIP</u>
2005 Series A-1 Bonds	\$ _____	3-Month LIBOR plus 0. __ %	—	100%	—	—	—
2005 Series A-2 Bonds	\$ _____	3-Month LIBOR plus 0. __ %	—	100%	—	—	—
2005 Series A-3 Bonds	\$ _____	3-Month LIBOR plus 0. __ %	—	100%	—	—	—

<sup>(1)</sup> Before deducting expenses estimated to be approximately \$ \_\_\_\_\_.

***You should carefully consider the risk factors described in this Offering Memorandum.***

*The 2005 Bonds are limited obligations of the Corporation. The Corporation has no taxing power.*

*The 2005 Bonds do not constitute a debt, liability or obligation, or a pledge of the full faith and credit or the taxing power, of the State of South Carolina or any of its agencies or political subdivisions.*

The 2005 Bonds are limited obligations payable from collections on a pool of student loans originated under the Federal Family Education Loan Program, a debt service reserve fund and other moneys and investments pledged to The Bank of New York, as trustee.

All of the 2005 Bonds will be rated “Aaa” by Moody’s Investors Service, Inc., “AAA” by Fitch Ratings and “AAA” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc.

The 2005 Bonds are “Senior Lien Bonds” on a parity with the Corporation’s Outstanding 1996 Bonds, 1997 Bonds, 1998 Bonds, 2001 Bonds, 2002 Bonds and 2003 Bonds.

The underwriters named below are offering the 2005 Bonds subject to approval of certain legal matters by counsel. The 2005 Bonds will be delivered in book-entry only form on or about July 19, 2005.

**RBC Dain Rauscher Inc.**

**BB&T Capital Markets**  
A Division of Scott & Stringfellow, Inc.

**A.G. Edwards & Sons, Inc.**

**Friedman, Billings, Ramsey & Co.**

July \_\_, 2005

# **SOUTH CAROLINA STUDENT LOAN CORPORATION**

## **BOARD OF DIRECTORS**

(effective July 1, 2005)

Sharon W. Bryant, *Chairman*  
Dr. Dennis A. Pruitt, Sr., *Vice Chairman*  
Thomas A. Little, Jr., *Vice Chairman*  
T. Graham Edwards, *Treasurer*  
William M. Mackie, Jr., *Secretary*  
Dr. Julia Boyd, *Director*  
Marvin G. Carmichael, *Director*  
Timothy E. Madden, *Director*  
William G. McMaster, *Director*  
Lisa P. Montgomery, *Director*  
J. Edward Norris, III, *Director*  
Dr. Caroline B. Whitson, *Director*

## **SENIOR MANAGEMENT**

William M. Mackie, Jr., *President and CEO*  
Charlie C. Sanders, Jr., *Executive Vice President and COO*  
Randall G. Thompson, *Senior Vice President*  
Norma M. Bowman, *Vice President-Human Resources*  
Michael E. Fox, *Vice President-Guaranty Agency Services*  
Jennifer A. Jones-Gaddy, *Vice President-Loan Originations*  
Wayne R. Kirby, *Vice President-Information Systems*  
Gerald I. Long, *Vice President-Repayment Services*  
Laura J. Rowell, *Vice President-Fiscal Operations*

## **BOND COUNSEL**

McNair Law Firm, P.A.  
Charleston, South Carolina

## **TRUSTEE**

The Bank of New York  
New York, New York

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## ADDITIONAL INFORMATION

No dealer, broker, salesman or other person has been authorized by the Corporation or the Underwriters to give any information or to make any representations, other than those contained in this Offering Memorandum, and if given or made, such other information or representations must not be relied upon as having been authorized by 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 2005 Bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Offering Memorandum nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Corporation since the date hereof.

THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFERING MEMORANDUM IN ACCORDANCE WITH, AND AS PART OF, THEIR 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.

NOTWITHSTANDING ANY INVESTIGATION THAT THE UNDERWRITERS MAY HAVE CONDUCTED WITH RESPECT TO THE INFORMATION CONTAINED HEREIN, THE UNDERWRITERS MAKE NO REPRESENTATION OR WARRANTY AS TO THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION, AND NOTHING HEREIN SHALL BE DEEMED TO CONSTITUTE SUCH A REPRESENTATION OR WARRANTY BY THE UNDERWRITERS.

THE 2005 BONDS ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, AND ARE "EXEMPTED SECURITIES" WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.

THE REGISTRATION, QUALIFICATION OR EXEMPTION OF THE 2005 BONDS IN ACCORDANCE WITH THE APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREON. NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION, THE JURISDICTIONS REFERENCED ABOVE NOR ANY OF THEIR AGENCIES HAVE APPROVED, DISAPPROVED, GUARANTEED OR PASSED UPON THE SAFETY OF THE 2005 BONDS AS AN INVESTMENT, UPON THE PROBABILITY OF ANY EARNINGS THEREON, OR UPON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

This Offering Memorandum contains certain statements relating to future results, which are forward-looking statements as that term is defined in the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on beliefs of Corporation management as well as assumptions and estimates based on information currently available to the Corporation, and are subject to certain risks and uncertainties that could cause actual results to differ materially from historical results or those anticipated, depending on a variety of factors, including economic and market instability, the financial health of Guaranty Agencies, changes in federal and state laws applicable to the Corporation and the 2005 Bonds and interest rate fluctuations. Should one or more of these risks or uncertainties materialize adversely, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described. *See "RISK FACTORS."*

Within this Offering Memorandum are cross-references to captions found elsewhere in this Offering Memorandum, under which you can find further related discussions. The table of contents found on the previous page indicates where such captions and discussions are located.

## SUMMARY STATEMENT

This Summary Statement is subject in all respects to more complete information contained in this Offering Memorandum. The offering of the 2005 Bonds to potential investors is made only by means of this entire Offering Memorandum. No person is authorized to detach this Summary Statement from this Offering Memorandum or to otherwise use it without this entire Offering Memorandum. All capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Resolution. *See EXHIBIT II – “GLOSSARY OF CERTAIN DEFINED TERMS FROM THE GENERAL AND 2005 SERIES RESOLUTIONS.”*

### PRINCIPAL PARTIES

<b>Issuer</b> .....	South Carolina Student Loan Corporation, a nonprofit, public benefit corporation incorporated on November 15, 1973 pursuant to the laws of the State of South Carolina, which received its final 501(c)(3) determination letter from the U.S. Internal Revenue Service on June 30, 1979. Under its Restated and Amended Articles of Incorporation, the Corporation has the power to receive, invest, administer and disburse funds for educational purposes so as to enable individuals to attend eligible educational institutions beyond the secondary school level and to make, handle, service and deal with student and parent loans as provided in the Higher Education Act of 1965, as amended (the “Higher Education Act”). The Corporation has been designated an “Eligible Lender” pursuant to Title IV of the Higher Education Act and, as agent of and an independent contractor with the Authority, serves as the principal originator and servicer of student loans guaranteed by the Authority. <i>See “THE CORPORATION.”</i>
<b>Guaranty Agency</b> .....	South Carolina State Education Assistance Authority (the “Authority”), a body politic and corporate and a public instrumentality of the State of South Carolina, acting in its capacity as a state guaranty agency under the Higher Education Act, or other authorized guaranty agency under the Higher Education Act approved by each Rating Agency (each, a “Guaranty Agency”). <i>See “SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY.”</i>
<b>Trustee, Paying Agent, Calculation Agent, and Registrar</b> .....	The Bank of New York, New York, New York. <i>See “THE 2005 BONDS.”</i>
<b>The Securities Depository</b> .....	The Depository Trust Company, New York, New York (the “Securities Depository”), or any additional or successor securities depository for the 2005 Bonds. Delivery of the 2005 Bonds will be made through the Securities Depository, Clearstream Banking and the Euroclear System.
<b>Rating Agencies</b> .....	All of the 2005 Bonds will be rated “Aaa” by Moody’s Investors Service, Inc., “AAA” by Fitch Ratings and “AAA” by Standard & Poor’s Rating Services, a division of The McGraw-Hill Companies, Inc.” <i>See “RATINGS.”</i>
<b>Underwriters</b> .....	RBC Dain Rauscher Inc., A.G. Edwards & Sons, Inc., BB&T Capital Markets, a division of Scott & Stringfellow, Inc., and Friedman, Billings, Ramsey & Co., Inc.

## ***THE BONDS***

### **The 2005 Bonds.....**

\$700,000,000 principal amount of 2005 Bonds, bearing interest and payable as described below. The 2005 Bonds will be issued in [three] tranches (each a “Tranche”) of LIBOR Indexed Bonds as follows:

- 2005 Series A-1 - LIBOR Indexed Bonds in the aggregate principal amount of \$[\_\_\_\_\_],
- 2005 Series A-2 – LIBOR Indexed Bonds in the aggregate principal amount of \$[\_\_\_\_\_], and
- 2005 Series A-3 – LIBOR Indexed Bonds in the aggregate principal amount of \$[\_\_\_\_\_].

The 2005 Bonds are Senior Lien Bonds issued pursuant to a June 7, 1996 General Resolution (the “General Resolution”) and a Series Resolution effective as of July \_\_, 2005 (the “2005 Series Resolution”) (collectively, the “Resolution”), each approved by the Corporation’s Board of Directors.

The 2005 Bonds are payable primarily from collections on a pool of student loans, discussed below.

### **Denominations .....**

The 2005 Bonds will be offered in minimum denominations of \$200,000 and available for purchase in multiples of \$1,000 above that amount. The 2005 Bonds are available in book-entry form only and purchasers will not receive certificates representing their interests except as described herein.

### **Maturity Dates.....**

2005 Series A-1 Bonds: [TBD]  
2005 Series A-2 Bonds: [TBD]  
2005 Series A-3 Bonds: [TBD]

### **Outstanding Parity Bonds.....**

The 2005 Bonds are issued as “Senior Lien Bonds” on a parity and equality of lien with the Corporation’s other Senior Lien Bonds Outstanding as of the date hereof, and such additional bonds that may be hereafter issued by the Corporation as Senior Lien Bonds (“Additional Bonds”). See “*Priority of Security and Additional Bonds*” and “*THE CORPORATION – Corporation Debt Outstanding*.” The Corporation’s Outstanding Senior Lien Bonds are referred to herein as the “Prior Bonds” and are Outstanding in the total principal amount of \$1,135,772,000 as of the date on the cover of this Offering Memorandum. The Prior Bonds, the 2005 Bonds and such Additional Bonds as may hereafter be issued under the General Resolution are referred to herein as the “Bonds.”

### **Interest Rate on the 2005 Bonds.....**

Each Tranche of the 2005 Bonds will bear interest at the Initial LIBOR Indexed Rate or the LIBOR Indexed Rate, as applicable, which is the sum of the applicable LIBOR rate plus the following applicable Spread Factors.

2005 Series A-1 Bonds: 0. \_\_ %  
2005 Series A-2 Bonds: 0. \_\_ %  
2005 Series A-3 Bonds: 0. \_\_ %

The Initial LIBOR Indexed Rate for each Tranche of the 2005 Bonds will be based on an interpolated LIBOR rate determined by the following formula two Business Days prior to the Closing Date:

$$x + [13/31 \text{ times } (y-x)],$$

where:

$$x = 1\text{-month LIBOR, and}$$
$$y = 2\text{-month LIBOR}$$

After the Initial Period, the LIBOR Rate will be 3-month LIBOR. The LIBOR Indexed Rate will be determined on the second Business Day prior to each Interest Payment Date (each an “Interest Rate Determination Date”) by the Trustee or its successor(s) as Calculation Agent. Each change in the LIBOR Indexed Rate will be effective for the interest period commencing on the immediately ensuing Interest Payment Date.

**Interest Computations  
and Payments.....**

Interest on the outstanding principal balance of each Tranche of the 2005 Bonds will be computed on the basis of the actual number of days elapsed in each Interest Period divided by 360.

Interest is payable quarterly on the first Business Day of each December, March, June, and September, commencing on the first Business Day of September, 2005, until maturity or earlier payment in full.

Interest payable with respect to a Tranche of the 2005 Bonds on each applicable Interest Payment Date will be the interest which has accrued (at the Initial LIBOR Indexed Rate, or the LIBOR Indexed Rate, as applicable) from the later of the date of delivery or the most recent Interest Payment Date for which interest has been duly paid or for which provision has been made.

On each such Interest Payment Date, interest on each Tranche of the 2005 Bonds is payable on behalf of the Corporation at the principal corporate trust office of the Trustee to the person appearing as registered owner on the registration books of the Trustee. For so long as the book-entry only system is in effect, the registered owner for purposes of the receipt of all payments of principal of and interest on each Tranche the 2005 Bonds shall be Cede & Co., as nominee of the Securities Depository.

**Principal Payments  
Prior to Maturity .....**

Each Tranche of the 2005 Bonds will not be subject to redemption prior to maturity but will be subject to *pro rata* principal reduction payments prior to maturity based upon a Targeted Amortization Schedule adopted by the Corporation for each Tranche (“Principal Reduction Payments”). In no event will Principal Reduction Payments for each Tranche of the 2005 Bonds exceed the amounts specified in the applicable Targeted Amortization Schedule, subject to adjustments as described below.

Failure by the Corporation to make any Principal Reduction Payment set forth in any Targeted Amortization Schedule applicable to each Tranche of the 2005 Bonds will not constitute a payment default. However, to the extent any such Principal Reduction Payment is less than that contemplated by the applicable Targeted Amortization Schedule, such deficiency is added to the next payment contemplated by the appropriate Targeted Amortization Schedule.

If Revenues Available for Debt Service are not sufficient to make the payments set forth in the Targeted Amortization Schedules in full for all Outstanding Bonds subject thereto, Principal Reduction Payments are made *pro rata* based upon the amount due, as adjusted, when Revenues Available for Debt Service are not sufficient to make such payments in full.

### ***USE OF PROCEEDS***

#### **Use of Initial Proceeds of 2005 Bonds .....**

The proceeds of the 2005 Bonds are to be initially used to:

- finance and refinance the acquisition and making of Education Loans (which may only be Guaranteed Loans financed under the General Resolution so long as any 2005 Bonds are Outstanding),
- optionally redeem certain of the Prior Bonds,
- fund a deposit to the Debt Service Reserve Fund, and
- pay costs and expenses associated with the issuance of the 2005 Bonds.

Guaranteed Loans are obligations acquired or to be acquired by the Corporation with funds made available by the Resolution that represent advances of money made by an Eligible Lender to or on behalf of a student attending or enrolled at an Eligible Institution, for which the payment of principal and interest is guaranteed by the Authority or another qualified Guaranty Agency, and reinsured as to principal amount and interest by the Secretary of the United States Department of Education (the “Secretary”), to the maximum extent authorized at the time of such loan under the Higher Education Act and agreements entered into by a Guaranty Agency and the Secretary pursuant to the Higher Education Act.

#### **Use of Recycled Proceeds of the Bonds.....**

Through June 30, 2007 and later upon Rating Agency approval, payments (or portions thereof) received with respect to Pledged Assets may be used to finance other Guaranteed Loans under certain circumstances.

The relative composition of the portfolios of the Guaranteed Loans constituting Pledged Assets acquired with proceeds of the Prior Bonds and anticipated to be acquired with proceeds of the 2005 Bonds is shown herein under the heading “*THE PLEDGED ASSETS --The Portfolios of Guaranteed Loans-Summary Information.*” Revenues received with respect to Guaranteed Loans are to be applied in accordance with the Resolution, which under certain circumstances permits such revenues to be used for the acquisition or funding of other Guaranteed Loans. See EXHIBIT III – “*SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION--Monthly Distributions of Moneys from the General Revenue Fund.*”



## ***THE PLEDGED ASSETS***

### **Sources of Revenue and Security .....**

Sources of revenue and security for the 2005 Bonds may include:

- Education Loans (which may only be Guaranteed Loans financed under the General Resolution so long as any 2005 Bonds are Outstanding), pledged under the Resolution. *See “EXPECTED APPLICATION OF 2005 BOND PROCEEDS.”*
- Interest payments with respect to Guaranteed Loans made by or on behalf of borrowers.
- All amounts received in respect of payment of principal on Guaranteed Loans held by the Corporation, including scheduled, delinquent and advance payments, payouts or prepayments, and proceeds from the guarantee, or from the sale, assignment or other disposition of Guaranteed Loans.
- Any applicable “Special Allowance Payments” authorized to be made by the Secretary in respect of Guaranteed Loans pursuant to Section 438 of the Higher Education Act or similar allowances authorized from time to time by federal law or regulation.
- Any applicable “Interest Subsidy Payments” payable in respect of any Guaranteed Loans by the Secretary under Section 428 of the Higher Education Act.
- Moneys and securities from time to time held by the Trustee under the terms of the Resolution (excluding moneys and securities held, or required to be deposited, in the Rebate Fund, discussed below) and any and all other real or personal property of every name and nature from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Resolution.

The foregoing categories of security are herein referred to collectively as “Pledged Assets.”

### **Education Loan Guarantee, Reinsurance or Insurance**

All Guaranteed Loans financed or acquired initially by the Corporation with the proceeds of the 2005 Bonds and thereafter acquired with payments in respect of Pledged Assets are to be guaranteed as to unpaid principal and accrued interest by the Authority, or another approved Guaranty Agency, at not less than the maximum percentage permitted under the Higher Education Act, as the same may be amended from time to time, and reinsured by the Secretary under a formula of reimbursement as provided in the Higher Education Act, as the same may be amended from time to time. *See EXHIBIT I – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”*

**Debt Service Reserve  
Fund.....**

The Senior Lien Account of the Debt Service Reserve Fund is a common reserve fund which equally secures all Senior Lien Bonds. The Debt Service Reserve Requirement is equal to the greatest of:

- the sum of the reserve requirements for each Series of Bonds;
- 0.1% times the original principal amount of all Tranches Outstanding as of the date of calculation; or
- \$750,000.

The reserve requirement with respect to the 2005 Bonds will be an amount such that there shall not be less than 1% of all Bonds Outstanding on deposit in the Debt Service Reserve Fund. After issuance of the 2005 Bonds and redemption of the Prior Bonds with proceeds of the 2005 Bonds, the balance in the Senior Lien Account of the Debt Service Reserve Fund is expected to equal \$14,593,720, which is 1.0% of the principal balance of all Bonds then expected to be Outstanding.

**Monthly Distributions of  
General Revenue  
Fund Moneys.....**

Under the General Resolution, all moneys received by or on behalf of the Corporation as Pledged Assets, and any other moneys or assets designated as pledged assets by the Corporation from time to time, are to be deposited monthly by the Corporation to the credit of the General Revenue Fund.

Moneys in the General Revenue Fund are to be applied monthly to various funds and accounts for the following purposes:

- *First*, for the payment of interest on Senior Lien Bonds;
- *Second*, for the payment of principal on Senior Lien Bonds at maturity;
- *Third*, for the payment of interest on Subordinate Lien Bonds, if any;
- *Fourth*, for the payment of principal on Subordinate Lien Bonds at maturity, if any;
- *Fifth*, for the payment of the Corporation's servicing and operating expenses;
- *Sixth*, for the replenishment of the Senior Lien Debt Service Reserve Fund, if necessary;
- *Seventh*, for the replenishment of the Subordinate Lien Debt Service Reserve Fund, if necessary;
- *Eighth*, for Principal Reduction Payments on Senior Lien Bonds;
- *Ninth*, for Principal Reduction Payments on Subordinate Lien Bonds, if any;
- *Tenth*, to the Corporation upon satisfaction of certain collateralization tests; and

- *Last*, the balance, if any, to finance additional Guaranteed Loans or to retire or redeem the Bonds, subject to certain limitations as discussed herein. See *EXHIBIT III - "SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION - Monthly Distributions of Moneys from the General Revenue Fund."*

**Priority of Security and  
Additional Bonds .....**

The rights of the owners of the 2005 Bonds are on a parity and equality of lien with the rights of the owners of the Prior Bonds and any Additional Bonds issued as Senior Lien Bonds under the General Resolution. Under the General Resolution, Additional Bonds may be issued which are on a parity with the Prior Bonds and the 2005 Bonds if the Corporation provides, *inter alia*, written evidence from each Rating Agency that the issuance of such Additional Bonds shall not result in a reduction or withdrawal of the then current rating on any Bonds Outstanding. Other than such permitted additional parity lien bonds, the rights of the holders of all other notes, bonds and other obligations of the Corporation with respect to the Pledged Assets and the Funds and Accounts created by the General Resolution are to be subordinate in all respects to the pledge or assignment created under the General Resolution for the benefit of the holders of the Prior Bonds and the 2005 Bonds. As of the date hereof, the Corporation has issued no Subordinate Lien Bonds. See "*Outstanding Parity Bonds*" above and "*THE CORPORATION – Corporation Debt Outstanding*" with respect to the Prior Bonds.

While the 2005 Bonds are Outstanding, the Corporation will not issue Additional Bonds under the General Resolution if such issuance will cause the Pledged Assets to fall below 103% of the principal amount of, and accrued interest on, the Outstanding Senior Lien Bonds.

**Collateralization .....**

Upon issuance and after initial application of the proceeds of the 2005 Bonds, Pledged Assets are expected to equal approximately 112.5% of the outstanding principal amount of and accrued interest on the Bonds.

***MISCELLANEOUS***

**Risk Factors .....**

For a detailed discussion of risk factors which should be considered by potential purchasers of the 2005 Bonds. See "*RISK FACTORS*."

**Bond Purchase  
Agreement .....**

The 2005 Bonds are to be purchased by the Underwriters specified on the cover of this Offering Memorandum pursuant to the terms and conditions of a Bond Purchase Agreement dated July [\_\_\_], 2005 between the Corporation and the Underwriters, subject to certain conditions, at an aggregate purchase price equal to \$[\_\_\_\_\_]. See "*UNDERWRITING*."

**Tax Matters .....**

In the opinion of McNair Law Firm, P.A., Bond Counsel, interest on the 2005 Bonds is not excluded from the gross income of the owners thereof for either federal or State of South Carolina income tax purposes. See "*TAX MATTERS*."

**ERISA Considerations ...**

Subject to important considerations and conditions described in this Offering Memorandum, the 2005 Bonds may be purchased by or on behalf of an employee benefit plan or other retirement arrangement subject to Title I of The Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and/or certain overlapping provisions of the Internal Revenue Code of 1986, as amended (the “Code”), provided that the plan’s purchase or holding of the 2005 Bonds will not give rise to a “prohibited transaction” or otherwise be impermissible under ERISA or the Code. Each fiduciary who purchases any of the 2005 Bonds will be deemed to represent that a prohibited transaction will not occur by reason of the purchase or holding of the 2005 Bonds or, if one does occur, that an appropriate exemption applies. See “*ERISA AND OTHER CODE CONSIDERATIONS*.”

**Related Parties .....**

One of the Directors of the Corporation is a related party to an Underwriter of the 2005 Bonds. See “*THE CORPORATION*” and the table therein entitled “*The Board of Directors of the Corporation*.”

The Board of Directors of the Corporation authorized and approved the transactions contemplated by the General Resolution and all subsequent Series Resolutions, including the 2005 Series Resolution, in accordance with Title 33, Chapter 31, Article 8, Subarticle 3 (§33-31-831) of the Code of Laws of South Carolina, 1976, as amended (relating to the standards of conduct for directors and officers of South Carolina nonprofit corporations), which permits transactions by a nonprofit corporation.

**Continuing Disclosure ....**

In the 2002 Series Resolution, the Corporation has covenanted to provide such continuing, secondary market disclosures and confirmations as are required by Rule 15c2-12 issued under the Securities Exchange Act of 1934, as amended, promulgated by the U.S. Securities and Exchange Commission. As of the date hereof, the Corporation is in compliance with its continuing disclosure undertaking with respect to the Prior Bonds.

**Irish Stock Exchange****Listing .....**

Application will be made to list the 2005 Bonds on the Irish Stock Exchange. There can be no assurance that this listing will be obtained. The issuance and settlement of the 2005 Bonds is not conditioned on the listing of the 2005 Bonds on the Irish Stock Exchange.

**CUSIP Numbers .....**

2005 Series A-1 Bonds:  
2005 Series A-2 Bonds:  
2005 Series A-3 Bonds:

**ISIN Numbers .....**

2005 Series A-1 Bonds:  
2005 Series A-2 Bonds:  
2005 Series A-3 Bonds:

**THE 2005 BONDS AND ALL BONDS HERETOFORE OR HEREAFTER ISSUED UNDER THE GENERAL RESOLUTION ARE LIMITED OBLIGATIONS OF THE CORPORATION, A NONPROFIT, PUBLIC BENEFIT CORPORATION ORGANIZED PURSUANT TO THE LAWS OF THE STATE OF SOUTH CAROLINA, AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF SOUTH CAROLINA OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OF SOUTH CAROLINA OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY. THE CORPORATION HAS NO TAXING POWER.**

## **RISK FACTORS**

You should consider the following risk factors in deciding whether to purchase the 2005 Bonds. The Corporation will acquire Guaranteed Loans with the net proceeds from the 2005 Bonds on or about the Issue Date. The characteristics of the Guaranteed Loan portfolio may change as a result of the part of the factors described in more detail below.

### ***The 2005 Bonds Are Not a Suitable Investment for All Investors.***

The 2005 Bonds are not a suitable investment if an investor requires regular or predictable schedule of payments or payment on any specific date. The 2005 Bonds are complex investments that should be considered 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, and tax consequences, of an investment, and interaction of these factors.

### ***Experience with Respect to the 2005 Bonds May Vary from Assumptions.***

There can be no assurance that the assumptions and considerations relied upon by the Corporation with respect to its expectations concerning the timing and sufficiency of receipts of revenues with respect to the Pledged Assets are accurate, or that actual experience will not vary from such assumptions and considerations.

### ***Composition and Character of Portfolio of Guaranteed Loans Will Change Over Time.***

The Guaranteed Loans that the Corporation intends to finance or refinance with the proceeds of the 2005 Bonds are described in this Offering Memorandum. The characteristics of the Guaranteed Loan portfolio pledged to secure the 2005 Bonds will change from time to time as new Guaranteed Loans are acquired by the Corporation and may also change as a result of amendments to the Higher Education Act, changes in terms of the Student Loan Finance Program, sales or exchanges of loans, and scheduled amortization, prepayments, delinquencies, and defaults on the Guaranteed Loans. Any new Guaranteed Loan so acquired may bear a lower rate of return and have a greater risk of loss from borrower defaults.

### ***Variety Of Factors Affecting Borrowers Could Affect 2005 Bonds.***

Collections on the Guaranteed Loans during a monthly collection period may vary greatly in both timing and amount from the payments actually due on such Guaranteed 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 Guaranteed 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 the 2005 Bonds. 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 the 2005 Bonds, is impossible to predict.

### ***Negative Impacts on the Financial Health of Guaranty Agencies Could Delay Payments or Cause Losses.***

The Guaranteed Loans are not secured by any collateral of the borrowers. Payments of principal and interest are guaranteed in whole or in part by Guaranty Agencies to the extent described herein and as further described in *EXHIBIT I – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM,”* Excessive borrower defaults could impair a Guaranty Agency’s ability to meet its guarantee obligations, and holders of the 2005 Bonds could experience a delay in payment or losses on the 2005 Bonds. The financial health of a Guaranty Agency also could affect the timing and amount of available funds for any collection

period and the Corporation's ability to pay principal of and interest on the 2005 Bonds. A Guaranty Agency's financial health could be adversely affected by a number of factors, including the amount of claims made against such Guaranty Agency as a result of borrower defaults, changes in legislation that may reduce expenditures by the applicable state and federal agencies that support such Guaranty Agencies, and the amount of claims reimbursed by the Secretary, discussed below. In the event of a deterioration of a Guaranty Agency's financial condition, holders of the 2005 Bonds may suffer delays in payment or losses on the 2005 Bonds.

***The Secretary's Failure to Make Reinsurance Payments May Negatively Affect the Timely Payment of Principal and Interest.***

If a Guaranty Agency is unable to meet its guarantee obligations, holders of Guaranteed Loans could submit default claims for payment directly to the Secretary pursuant to Section 432(o) of the Higher Education Act. The Secretary's obligation to pay such claims is dependent on its determination that such Guaranty Agency is unable to meet its insurance obligations. There is no assurance that the Secretary would make such a determination or that it would pay claims in a timely manner. The Corporation may, however, receive claim payments on Guaranteed Loans directly from the Secretary under Section 432(o) if such a determination is made. *See EXHIBIT I – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."*

***Holders of the 2005 Bonds Bear the Risk of Prepayment and Extension Due to Actions Taken by Borrowers and Other Variables Beyond the Corporation's Control.***

The receipt of principal payments on Guaranteed Loans may be accelerated due to various factors, including, among others, the commencement of principal repayment by borrowers on dates earlier than those assumed based upon the current analysis of the Corporation's Guaranteed Loan portfolio; principal prepayments due to refinancing or consolidation of Guaranteed Loans; economic conditions which encourage borrowers to refinance or prepay their loans prior to maturity; and, changes in federal law which may affect the timing of the receipt of funds by the Corporation. Because the 2005 Bonds are secured by a pool of thousands of student loans, it is difficult to predict the amount and timing of payments that will be received by the Corporation and paid to holders of the 2005 Bonds in any period. Consequently, the repayment of the 2005 Bonds may be earlier than anticipated, although Principal Reduction Payments for the 2005 Bonds will not exceed the amounts, or be paid at a rate faster than, set forth on the Targeted Amortization Schedule for each Tranche of the 2005 Bonds.

At the same time, the assumed receipt of principal and interest payments on Guaranteed Loans may be delayed or reduced due to numerous factors, including, among others, borrowers entering deferment periods due to a return to school or other eligible purposes; forbearance being granted to borrowers; the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Guaranteed Loan portfolio; and, changes in federal law which may affect the timing of the receipt of funds by the Corporation. Consequently, the period of time that the 2005 Bonds are outstanding and accruing interest may be longer than anticipated.

Subject only to the availability of sufficient funds, the Corporation shall make *pro rata* Principal Reduction Payments prior to maturity based upon a Targeted Amortization Schedule adopted by the Corporation for each Tranche. The yield on the 2005 Bonds will be affected in the event sufficient funds are available and the Corporation makes such payments.

***Variable Interest Rates and Differentials May Affect the Corporation's Ability to Make Payments.***

As described above, the interest rates for each Tranche of 2005 Bonds will vary from time to time based on changes in the LIBOR Rate from which they are respectively determined. These indices will fluctuate over time based upon market conditions, national and international conditions and numerous other factors, all of which are totally beyond the control or anticipation of the Corporation. The interest payments, and certain other interest-related payments, received by the Corporation from Guaranteed Loans will also vary from time to time based on changes in the bond equivalent rate of U.S. Treasury Bills and Commercial Paper rates, as applicable.

Because of the differences in the bases for the calculation of interest payable on each Tranche of the 2005 Bonds and the determination of the interest and interest-related payments received by the Corporation from Guaranteed Loans securing the Prior Bonds and the 2005 Bonds, there could be times when interest and interest-related payments received by the Corporation are not sufficient to cover interest payments to be made on the Prior Bonds, the 2005 Bonds and other costs of the Corporation in servicing such Guaranteed Loans and administering its Student Loan Finance Program. Further, proceeds of the 2005 Bonds and moneys in the funds and accounts under the Resolution may be invested from time to time in instruments other than Guaranteed Loans and which bear interest at rates which fluctuate and which differ from, and may be less than, the interest rates on the 2005 Bonds.

***Changes in the Higher Education Act May Adversely Affect the Sufficiency of the Guaranteed Loans Constituting Pledged Assets.***

The Higher Education Act is expected to be reauthorized in calendar year 2005 or 2006. There can be no assurance, however, that such reauthorization will occur or, if it does, that substantial changes will not be made in the Federal Family Education Loan Program as a part of such reauthorization. In recent years, federally enacted legislation has made substantial changes to the current guaranteed education loan programs under the Higher Education Act. Among other things, such legislation has established a Federal Direct Student Loan Program and amended the Higher Education Act in ways which affect existing programs. *See EXHIBIT I -- "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."*

There can be no assurance that the Higher Education Act will be reauthorized by Congress or that such reauthorization will not change current provisions of the Higher Education Act, or that future amendments will not be made to all or portions of the Higher Education Act, any or all of which may materially adversely affect the availability and sufficiency of the Guaranteed Loans or payments received thereon constituting Pledged Assets to make principal and interest payments on the 2005 Bonds.

***Noncompliance with the Higher Education Act May Adversely Affect Payment of Principal of and Interest on the 2005 Bonds.***

Noncompliance with the Higher Education Act with respect to Guaranteed Loans made by the Corporation and guaranteed by the Authority may adversely affect the payment of principal of and interest on the 2005 Bonds when due. The Higher Education Act and the applicable regulations thereunder require the lenders making Guaranteed Loans, Guaranty Agencies guaranteeing Guaranteed Loans and lenders or servicers servicing Guaranteed Loans to follow certain due diligence procedures in an effort to ensure that Guaranteed Loans are properly made and disbursed to, and timely repaid by, the borrowers. Such due diligence procedures include certain loan application procedures, certain loan origination procedures and, when a Guaranteed Loan is in default, certain loan collection procedures. The procedures to make, guarantee and service Higher Education Act loans are set forth in the Code of Federal Regulations and other documents of the Department of Education, and no attempt has been made in this Offering Memorandum to describe those procedures in their entirety. Failure to follow such procedures may result in the Secretary's refusal to make reinsurance payments, Interest Subsidy Payments or Special Allowance Payments on such loans, or may result in the Guaranty Agency's refusal to honor its guarantee on such loans to holders of Guaranteed Loans, including the Corporation. Such action by the Secretary could adversely affect a Guaranty Agency's ability to honor guarantee claims, and loss of guarantee payments to the Corporation could adversely affect the ability of the Corporation to make payments of principal of and interest on the 2005 Bonds.

***There is Uncertainty as to the Remedies Available to Holders of the 2005 Bonds.***

The remedies available to owners of the 2005 Bonds upon an Event of Default under the General Resolution or other documents described herein are in many respects dependent upon regulatory and judicial actions, which often are subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, including specifically Title 11 of the United States Code, the remedies specified by the General Resolution and such other documents may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the respective issuances of the 2005 Bonds will be qualified, as to the enforceability

of the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

***If a Secondary Market for the 2005 Bonds Does Not Develop, the Value of the 2005 Bonds May Diminish.***

The 2005 Bonds will be a new issue by the Corporation without an established trading market. The Underwriters may assist in resales of the 2005 Bonds but are not required to do so. A secondary market for the 2005 Bonds may not develop, which may adversely affect the value of the 2005 Bonds. If a secondary market does develop, it might not continue or it might not be sufficiently liquid to allow the resale of any of the 2005 Bonds.

Furthermore, the transfer requirements described herein may limit the liquidity, marketability and value of each Tranche of 2005 Bonds and therefore may not yield an owner the best possible price for a 2005 Series Bond. The ratings of the 2005 Bonds by the rating agencies will not address the market liquidity of the 2005 Bonds.

***The 2005 Bonds are Limited Obligations.***

The 2005 Bonds are ultimately backed by and will be payable solely from payments and other collections on or in respect of the Guaranteed Loans, among other sources of revenue and security pledged under the Resolution. *See "THE PLEDGED ASSETS."* The 2005 Bonds are limited obligations of the Corporation, a non-profit public benefit corporation, and will not and do not represent obligations, or a pledge of the full faith and credit or the taxing power, of the State of South Carolina or any of its agencies or political subdivisions. Payments of interest and principal on the 2005 Bonds will ultimately depend on the amount and timing of payments and other collections in respect of the Guaranteed Loans and other Pledged Assets.

***The Corporation May Issue Additional Bonds.***

The Corporation may, from time to time, issue Additional Bonds or incur other obligations secured by the Pledged Assets without the consent or approval of any existing Bondholders. Such Additional Bonds or other obligations may be on a parity with or subordinate to the Prior Bonds and 2005 Bonds in right of payment.

Moreover, since the Pledged Assets (and specifically the Debt Service Reserve Fund) secure, on a parity basis, the Prior Bonds, the 2005 Bonds and any Additional Bonds issued as Senior Lien Bonds under the General Resolution, it may be expected that the issuance of any Additional Bonds will result in dilution of the security currently provided by the Pledged Assets and Debt Service Reserve Fund with respect to such Outstanding Bonds, including the 2005 Bonds. However, Additional Bonds may only be issued if the Corporation provides, *inter alia*, written evidence from each Rating Agency that the issuance of such Additional Bonds will not result in a reduction or withdrawal of the then current rating on any Bonds Outstanding.

***The Corporation Faces Competition and Federal Programs that Could Decrease the Volume of Guaranteed Loans Available.***

The Corporation faces competition from other lenders that could decrease the volume of Guaranteed Loans that could be financed or refinanced. Additionally, the Higher Education Act provides for a Federal Direct Student Loan Program. *See EXHIBIT I – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."* This program could result in reductions in the volume of loans made under the Federal Family Education Loan Program. Reduced volume in the Corporation's program in particular and in the Federal Family Education Loan Program in general may cause increased costs due to reduced economies of scale. These cost increases could reduce the Corporation's ability to service the Guaranteed Loans. In addition, availability of competing Guaranteed Loans could reduce and delay the Corporation's loan volume and delay the Corporation's expenditure of the 2005 Bond proceeds or cause the Corporation not to spend all of such proceeds.



***The Trustee May Have Difficulty Liquidating Guaranteed Loans after an Event of Default.***

Upon the occurrence of an Event of Default under the General Resolution, Guaranteed Loans may have to be sold. However, it may not be possible to find a purchaser for the Guaranteed Loans. Also, the market value of the Guaranteed Loans plus other assets available for the payment of Bonds may not equal the principal amount of Bonds Outstanding plus accrued interest. The competition currently existing in the secondary market for Guaranteed Loans also could be reduced, resulting in fewer potential buyers of the Guaranteed Loans and lower prices available in the secondary market for those loans. The Holders may suffer a loss in circumstances such as these if purchaser(s) cannot be found who are willing to pay sufficient prices for the Guaranteed Loans.

***Differing Incentive and Repayment Terms May Reduce the Yield on Guaranteed Loans.***

Under some borrower payment incentive programs, a portion of the principal of Guaranteed Loans may be forgiven and/or interest rates on financed Guaranteed Loans may be reduced based upon the graduation and payment performance of the borrowers. The Corporation cannot predict which borrowers will qualify for or decide to participate in these programs. The effect of these incentive programs may be to reduce the yield on the Guaranteed Loans. However, such incentive programs, if successful, may also reduce servicing and administrative costs associated with the Guaranteed Loans of borrowers qualifying for and participating in such incentive programs.

***Holders of the 2005 Bonds May be Unable to Reinvest Principal Payments at the Yield Earned on the 2005 Bonds.***

Asset-backed securities such as the 2005 Bonds usually produce increased principal payments when market interest rates fall below the interest rates on the collateral – student loans in this case – and decreased principal payments when market interest rates rise above the interest rates on the collateral. As a result, a holder is likely to receive more money to reinvest at a time when other investments generally are producing lower yields than the yield on the 2005 Bonds. Similarly, holders are likely to receive less money to reinvest when other investments generally are producing higher yields than the yield on the 2005 Bonds. Holders should keep in mind, however, that Principal Reduction Payments for the 2005 Bonds will not exceed the amounts, or be paid at a rate faster than, set forth on the Targeted Amortization Schedule for each Tranche of the 2005 Bonds.

***The Withdrawal or Downgrade of Initial Ratings May Decrease the Value of the 2005 Bonds.***

A Rating Agency may revise or withdraw its rating of the 2005 Bonds at any time if it believes circumstances have changed. A subsequent downward change in a rating is likely to decrease the value of the 2005 Bonds and the price a subsequent purchaser is willing to pay for such securities.

***Holders of the 2005 Bonds May Have to Rely on Ratings Confirmations from the Ratings Agencies.***

The General Resolution provides that the Corporation and Trustee may undertake various actions based upon receipt by the Trustee of confirmation from each of the Ratings Agencies that the outstanding respective ratings assigned by such Ratings Agencies to the Bonds are not thereby impaired. Such actions include, but are not limited to, amending the Resolution via a Supplemental Resolution (which may be done without the consent of the holders of the 2005 Bonds in certain circumstances), the issuance of Additional Bonds, and the acquisition of certain Investment Obligations. To the extent such actions are taken after issuance of the 2005 Bonds, investors in the 2005 Bonds will be relying on the evaluation by the Ratings Agencies of such actions and their impact on credit quality.

***The 2005 Bonds are to be Issued in Book-Entry Form Only.***

The 2005 Bonds will be issued in book-entry form only, represented by a single fully registered bond for each of the 2005 Bonds, initially registered in the name of Cede & Co., the nominee of The Depository Trust Company (“DTC”). The Beneficial Owners of the 2005 Bonds will be able to exercise their rights as Beneficial Owners only indirectly through DTC and its participating organizations (“DTC Participants”), which may include Clearstream Banking and Euroclear System.

The furnishing of notices and other communications by DTC to DTC Participants, and directly and indirectly through the DTC Participants to Beneficial Owners, will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Furthermore, the Beneficial Owners may suffer delays in the receipt of distributions on the 2005 Bonds, and the ability of any Beneficial Owner to pledge or otherwise take actions with respect to its interest in the 2005 Bonds may be limited due to the lack of a physical certificate evidencing such interest. See “*THE 2005 BONDS – Book-Entry Only System.*”

***Military Service Obligations and National Disasters May Result in Delayed Payments from Borrowers.***

Congress has enacted statutes and other guidelines which provide relief to borrowers who enter active military service, to borrowers in reserve status who are called to active duty after the origination of their student loan and to individuals who live in a disaster area or suffer a direct economic hardship as a result of a national emergency.

The number and aggregate principal balance of Guaranteed Loans that may be affected by the application of these new statutes and other guidelines will not be known at the time the Corporation issues the 2005 Bonds. If a substantial number of borrowers of Guaranteed Loans becomes eligible for the relief under these new statutes and other guidelines, there could be an adverse effect on the total collections on those Guaranteed Loans and the ability of the Corporation to make principal and interest payments on the 2005 Bonds.

***Congressional Actions May Affect the Guaranteed Loans Held as Pledged Assets.***

Funds for payment of interest subsidies and other payments under the Federal Family Education Loan Program are subject to annual budgetary appropriation by Congress. In recent years, federal budget legislation has contained provisions that restricted payments made under the Federal Family Education Loan Program to achieve reductions in federal spending. Future federal budget legislation may adversely affect expenditures by the Department of Education, and the financial condition of the guaranty agencies.

# OFFERING MEMORANDUM

relating to

**\$700,000,000**

## **SOUTH CAROLINA STUDENT LOAN CORPORATION**

**(A nonprofit, public benefit corporation organized pursuant to the laws of the State of South Carolina)**

## **EDUCATION LOAN REVENUE BONDS**

### **2005 SERIES**

#### **INTRODUCTION**

This Offering Memorandum, which includes the cover page, the Summary Statement (including the Risk Factors) and the Exhibits hereto, is being provided by the South Carolina Student Loan Corporation (the “Corporation”) with respect to the offering and sale of its \$700,000,000 Education Loan Revenue Bonds, 2005 Series, maturing as shown on the cover hereof (the “2005 Bonds”). The 2005 Bonds are issued in [three] Tranches, as shown on the cover hereof, as LIBOR Indexed Bonds pursuant to a June 7, 1996 General Resolution (the “General Resolution”) and a Series Resolution effective as of July \_\_, 2005 (the “2005 Series Resolution”) (collectively, the “Resolution”) approved by the Board of Directors of the Corporation.

The Corporation is a nonprofit, public benefit corporation organized and existing under the laws of the State of South Carolina and operates in accordance with Title IV, Parts B and F of the Higher Education Act of 1965, as amended (together with any regulations promulgated thereunder, the “Higher Education Act”).

The 2005 Bonds are Senior Lien Bonds under the General Resolution. The 2005 Bonds are issued on a parity and equality of lien with the Corporation’s other Senior Lien Bonds now or hereafter Outstanding. For information concerning the Outstanding Bonds of the Corporation as of the date hereof, *see “THE CORPORATION – Corporation Debt Outstanding.”*

**THE 2005 BONDS AND ALL BONDS HERETOFORE OR HEREAFTER ISSUED PURSUANT TO THE GENERAL RESOLUTION ARE LIMITED OBLIGATIONS OF THE CORPORATION, A NONPROFIT, PUBLIC BENEFIT CORPORATION ORGANIZED PURSUANT TO THE LAWS OF THE STATE OF SOUTH CAROLINA, AND DO NOT CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE STATE OF SOUTH CAROLINA OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF, OR A PLEDGE OF THE FULL FAITH AND CREDIT OF THE STATE OF SOUTH CAROLINA OR OF ANY AGENCY OR POLITICAL SUBDIVISION THEREOF, INCLUDING THE AUTHORITY. THE CORPORATION HAS NO TAXING POWER.**

**THE 2005 BONDS ARE EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT OF 1933, AS AMENDED, AND ARE “EXEMPTED SECURITIES” WITHIN THE MEANING OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.**

The initial proceeds of the 2005 Bonds are being used in connection with the Corporation's Student Loan Finance Program (the "Student Loan Finance Program") to:

- finance and refinance the acquisition and the making of Guaranteed Loans, guaranteed by the South Carolina State Education Assistance Authority (the "Authority") or other qualified guaranty agencies as to unpaid principal and accrued interest at not less than the maximum applicable percentage permitted under the Higher Education Act,
- optionally redeem certain of the Prior Bonds,
- fund a deposit to the Senior Lien Account of the Debt Service Reserve Fund, and
- pay costs and expenses associated with the issuance of the 2005 Bonds. *See "EXPECTED APPLICATION OF 2005 BOND PROCEEDS."*

Payments, or portions thereof, received with respect to Pledged Assets may be used to finance and refinance additional or other Guaranteed Loans guaranteed by the Authority or by other qualified guaranty agencies (each a "Guaranty Agency") and reinsured by the Secretary of the United States Department of Education (the "Secretary"), or insured by the Secretary, all pursuant to the Higher Education Act (together with the initially acquired Guaranteed Loans, the "Guaranteed Loans").

All capitalized terms used in this Offering Memorandum and not otherwise defined herein have the same meanings as assigned to them in the Resolution. *See EXHIBIT II – "GLOSSARY OF CERTAIN DEFINED TERMS FROM THE GENERAL AND 2005 SERIES RESOLUTIONS."*

Brief summaries and descriptions of the 2005 Bonds, the Corporation, the Corporation's Student Loan Finance Program, the Authority, the Resolution, the Federal Family Education Loan Program, and certain statutes, regulations and other documents and materials are included in this Offering Memorandum. These summaries and descriptions do not purport to be comprehensive or definitive. All references to the 2005 Bonds, the Resolution and statutes, regulations and other documents and materials summarized, described or referred to herein are qualified in their entirety by reference to such documents, statutes, regulations and other materials. Copies of the Resolution are available for inspection in the Jacksonville, Florida office of the Trustee, which is located at 10161 Centurion Parkway, 2<sup>nd</sup> Floor, Jacksonville, FL 32256.

## THE 2005 BONDS

### General

The 2005 Bonds are issued pursuant to the authority of the General Resolution and the 2005 Series Resolution. The Bank of New York, New York, serves as Trustee (the “Trustee”) pursuant to the Resolution. The 2005 Bonds will be dated and mature as set forth on the cover of this Offering Memorandum.

The 2005 Bonds will initially be issued only as fully registered bonds without coupons and in book-entry form only, registered initially in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). As herein further described, delivery of the 2005 Bonds will be made through DTC, Clearstream Banking and the Euroclear System. Purchasers will not receive certificates representing their interests in the 2005 Bonds, except as described herein. Ownership interest is to be recorded in book-entry form by participants of DTC and the interest of such participants is to be recorded in book-entry form by DTC. Payments of principal of and interest, with respect to each Tranche of the 2005 Bonds, are to be made to DTC (or its nominee) or, in certain instances, participants of DTC. See “Book-Entry Only System” below.

The 2005 Bonds will be offered in minimum denominations of \$200,000 and available for purchase in multiples of \$1,000 above that amount.

Principal of and interest on each Tranche of the 2005 Bonds are payable solely from revenues to be derived with respect to the Pledged Assets and from other amounts, if any, deposited with the Trustee. The 2005 Bonds are subject to payments for reductions of principal prior to maturity in accordance with a Targeted Amortization Schedule adopted by the Corporation for each Tranche, as hereinafter described, but are not subject to optional or extraordinary optional redemption prior to maturity.

Other than principal reductions through Principal Reduction Payments made in accordance with the applicable Targeted Amortization Schedule for each Tranche, principal of the 2005 Bonds is payable at maturity upon presentation and surrender of such 2005 Bonds at the principal corporate trust office of the Trustee.

### Interest on the 2005 Bonds

Each Tranche of the 2005 Bonds will bear interest at the Initial LIBOR Indexed Rate or the LIBOR Indexed Rate, as applicable, which is the sum of the applicable LIBOR rate plus the following applicable Spread Factors:

2005 Series A-1: 0.\_\_\_\_%  
2005 Series A-2: 0.\_\_\_\_%  
2005 Series A-3: 0.\_\_\_\_%

The Initial LIBOR Indexed Rate for each Tranche of the 2005 Bonds will be based on an interpolated LIBOR rate determined by the following formula two Business Days prior to the Closing Date:

$$x + [13/31 \text{ times } (y-x)],$$

where:  
x = 1-month LIBOR,  
and y = 2-month LIBOR

After the Initial Period, the LIBOR Rate will be 3-month LIBOR, which will be determined on the second Business Day prior to each Interest Payment Date (each an “Interest Rate Determination Date”) by the Trustee or its successor(s) as Calculation Agent and will be the per annum rate fixed by the British Bankers’ Association at 11:00 a.m., London time (the “BBA Libor Rate”), relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a three (3) month period. Such rate may be available at Bloomberg US0003M<Index>HP. If the rate is no longer available from such source, the Calculation Agent will ascertain the rate in good faith from such sources as it shall determine to be comparable to such source. Each change in the LIBOR Indexed Rate will be effective on the immediately ensuing Interest Payment Date. If any Interest Rate Determination Date is not a business day in London, then the most recently fixed BBA Libor Rate for a three (3) month period shall be used.

The term “Business Day” as used herein means any day other than a Saturday, Sunday, legal holiday or any other day on which banking institutions in the State of New York or the state in which the principal corporate trust office of the Trustee is located, are generally authorized or obligated by law or executive order to close or on which the New York Stock Exchange is closed.

The maximum interest rate with respect to a Tranche of the 2005 Bonds is the maximum rate permitted by applicable law. As of the date hereof, there is no applicable law which restricts the interest rate with respect to a Tranche of the 2005 Bonds.

Interest on the Outstanding principal balance of each Tranche of the 2005 Bonds will be computed on the basis of the actual number of days elapsed in each Interest Period divided by 360, and is payable quarterly on the first Business Day of each March, June, September and December, commencing on the first Business Day of September, 2005, until maturity or earlier payment in full. Interest payable on the 2005 Bonds on each such Interest Payment Date will be the interest which has accrued with respect to a Tranche (at the Initial LIBOR Indexed Rate or the LIBOR Indexed Rate, as applicable) from the later of the date of delivery or the most recent Interest Payment Date for which interest has been duly paid or for which provision has been made. On each such Interest Payment Date, interest on the 2005 Bonds is payable on behalf of the Corporation at the principal corporate trust office of The Bank of New York, New York, New York, as Trustee, or its successor as trustee, to the person appearing as registered owner on the registration books of the Trustee. For so long as the book-entry only system is in effect, the registered owner for purposes of the receipt of all payments of principal of and interest on the 2005 Bonds shall be Cede & Co., as nominee of The Depository Trust Company.

### **Principal Payments Prior to Maturity**

The 2005 Bonds are not subject to optional or extraordinary optional redemption prior to maturity but are subject to *pro rata* Principal Reduction Payments prior to maturity based upon Targeted Amortization Schedules adopted by the Corporation for each Tranche, as set forth below. In no event will Principal Reduction Payments for the 2005 Bonds exceed the amounts specified in the applicable Targeted Amortization Schedule for each Tranche of the 2005 Bonds, subject to adjustments as described below.

The 1996 Series A-1 and A-2 Bonds, the 1997 Series A-1 and A-2 Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds, and the 2002 Bonds were also issued subject to Principal Reduction Payments prior to maturity based upon Targeted Amortization Schedules adopted by the Corporation. As of the date hereof, all such scheduled Principal Reduction Payments for the 1996 Series A-1 and A-2 Bonds, the 1997 Series A-1 and A-2 Bonds, the 1999 Bonds, the 2000 Bonds, the 2001 Bonds and the 2002 Bonds have been made at the times and in the amounts contemplated by such Targeted Amortization Schedules. The 1996 Series A-1 and A-2 Bonds, the 1997 Series A-1 and A-2 Bonds, the 1999 Bonds and the 2000 Bonds have been fully paid. However, there can be no assurance that such performance will continue in the future with respect to such bonds or that Principal Reduction Payments for the Tranches of the 2005 Bonds will be made at the times and in the amounts reflected by the schedules below.

If Revenues Available for Debt Service are not sufficient to make the Principal Reduction Payments in full for all Outstanding Bonds subject thereto, then Principal Reduction Payments are made *pro rata* based upon the amount due, as adjusted, when Revenues Available for Debt Service are not sufficient to make such payments in full. To the extent any Principal Reduction Payment is less than the corresponding payment contemplated by the applicable Targeted Amortization Schedule, such deficiency will be added to the next payment contemplated by such Targeted Amortization Schedule.

The Corporation has covenanted in the 2005 Series Resolution that it will not structure the principal payments of Additional Bonds issued under the General Resolution (whether by maturity, mandatory or other sinking fund redemptions or Principal Reduction Payments) in ways which would result in a postponement of the Principal Reduction Payments scheduled for the Tranches of the 2005 Bonds as a result of the diversion of Revenues Available for Debt Service to be received from Pledged Assets to the retirement of principal of such Additional Bonds. The Corporation is permitted to conclusively rely on a Cash Flow Certificate prepared by or on behalf of the Corporation in complying with this covenant.

The Targeted Amortization Schedules for the 2001 Bonds, the 2002 Bonds, and 2005 Bonds are as follows:

### Targeted Amortization Schedules

Date	2001 Bonds	2002 Bonds	2005 Series A-1	2005 Series A-2	2005 Series A-3
09/01/05	50,654,000	2,231,000			
12/01/05	51,211,000	7,266,000			
03/01/06	49,510,000	8,372,000			
06/01/06	48,264,000	7,661,000			
09/01/06	48,190,000	8,945,000			
12/01/06	26,543,000	30,932,000			
03/01/07	0	53,196,000			
06/01/07	0	51,643,000			
09/01/07	0	39,754,000			
12/01/07	0	0			
03/01/08	0	0			
06/01/08	0	0			
09/01/08	0	0			
12/01/08	0	0			
03/01/09	0	0			
06/01/09	0	0			
09/01/09	0	0			
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06/01/11	0	0			
09/01/11	0	0			
12/01/11	0	0			
03/01/12	0	0			
06/01/12	0 <sup>1</sup>	0			
09/01/12		0			
12/01/12		0			
03/01/13		0			
06/01/13		0 <sup>2</sup>			
09/01/13					
12/01/13					
<b>TOTALS:</b>					

<sup>1</sup> Stated Maturity of 2001 Bonds

<sup>2</sup> Stated Maturity of 2002 Bonds

<sup>3</sup> Stated Maturity of 2005 Series A-1 Bonds

<sup>4</sup> Stated Maturity of 2005 Series A-2 Bonds

<sup>5</sup> Stated Maturity of 2005 Series A-3 Bonds

Failure by the Corporation to make any payment contemplated by an applicable Targeted Amortization Schedule is not a payment default.

With respect to Principal Reduction Payments, the Trustee may, to the extent necessary to avoid payments of fractional cents, reduce scheduled payments by up to \$1,000. To the extent the Trustee effects any such reduction, such amount shall be carried over to the next scheduled Principal Reduction Payment for a Tranche.

### Book-Entry Only System

The Depository Trust Company, New York, New York, will act as securities depository for the 2005 Bonds. One fully registered 2005 Bond for each Tranche will be initially issued and registered in the name of Cede & Co., DTC's partnership nominee.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE 2005 BONDS, AS NOMINEE OF DTC, AND THE CORPORATION HAS NOT DETERMINED THAT IT IS IN THE CORPORATION'S BEST INTERESTS TO DISCONTINUE THE BOOK-ENTRY ONLY SYSTEM, REFERENCES HEREIN TO THE BONDHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE 2005 BONDS SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE 2005 BONDS.

*The Depository Trust Company.* DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended (the "Securities Exchange Act"). DTC holds securities that its participants ("Direct Participants" or "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations.

DTC is a wholly owned subsidiary of the Depository Trust & Clearing Corporation ("DTCC"). DTCC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The Rules applicable to DTC and its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

*Clearstream International and Clearstream.* Clearstream International is the product of the merger of Deutsche Börse and Cedel International, the European international clearing depository founded in 1970, and a number of its subsidiaries including Cedelbank. Clearstream International is registered in Luxembourg and has two subsidiaries – Clearstream Banking and Clearstream Services. Clearstream Banking ("Clearstream") contains the core clearing and settlement business and consists of Clearstream Banking Luxembourg, Clearstream Banking Frankfurt and six regional offices in Dubai, Hong Kong, London, New York, São Paulo and Tokyo. Clearstream holds securities for its participating organizations ("Clearstream Participants") and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. As a professional depository, Clearstream is subject to regulation by the Luxembourg Monetary Institute. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

*Euroclear System.* The Euroclear System ("Euroclear") was created in 1968 to hold securities for its participants and to clear and settle transactions between its 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. Euroclear includes various other services, including securities lending and borrowing, and interfaces with domestic markets in several countries. The Euroclear System is owned by Euroclear Clearance System Public Limited Company (ECSplc) and operated through a license agreement by Euroclear Bank S.A./N.V., a bank incorporated under the laws of the Kingdom of Belgium (the "Euroclear Operator").

Euroclear participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries. Indirect access to Euroclear is also available to others that clear through or maintain a custodial relationship with a Euroclear participant, either directly or indirectly.

The Euroclear Operator is regulated and examined by the Belgian Banking and Finance Commission and the National Bank of Belgium. 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 (collectively, the "Terms and Conditions"). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held



on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear participants and has no record of or relationship with persons holding through Euroclear participants.

*Purchases of the 2005 Bonds.* Purchases of 2005 Bonds under the DTC system must be made by or through DTC Participants, which are to receive a credit for the 2005 Bonds on DTC's records. The ownership interest of each actual purchaser of each 2005 Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners shall not receive confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transactions. Transfers of ownership interests in the 2005 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their beneficial ownership interests in the 2005 Bonds, unless use of the book-entry only system is discontinued as described below.

To facilitate subsequent transfers, the 2005 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the 2005 Bonds with DTC and their registration in the name of Cede & Co. (or such other DTC nominee) do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 2005 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such 2005 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants shall remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the 2005 Bonds, the beneficial owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyances of notices and other communications by (a) DTC to Direct Participants, (b) Direct Participants to Indirect Participants, and (c) Direct Participants and Indirect Participants to Beneficial Owners shall be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the 2005 Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an omnibus proxy to the Corporation 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 2005 Bonds are credited on the record date (identified in a listing attached to the omnibus proxy).

Principal, principal reduction and interest payments on the 2005 Bonds are to be made by the Trustee to DTC or its nominee. Payments by DTC Participants to Beneficial Owners are to be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name" and shall be the responsibility of such DTC Participants and not of DTC, the Corporation or the Trustee, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC or its nominee is the responsibility of the Corporation and Trustee as set forth in the Resolution, and payments made by or on behalf of the Corporation to DTC or its nominee shall satisfy the Corporation's obligations under the Resolution. Disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

*Distribution of the 2005 Bonds through Clearstream or Euroclear.* Distributions with respect to the 2005 Bonds held through Clearstream or Euroclear will be credited to the cash accounts of Clearstream Participants or Euroclear Participants, as applicable, in accordance with the relevant system's rules and procedures, to the extent received by its depository. Such distributions will be subject to tax reporting and withholding in accordance with relevant United States tax laws and regulations. Clearstream or the Euroclear Operator, as the case may be, will take any other action permitted to be taken by a holder of the 2005 Bonds under the Resolution on behalf of a Clearstream Participant or Euroclear Participant only in accordance with the relevant rules and procedures and subject to the relevant Depository's ability to effect such actions on its behalf through DTC. Holders of the 2005 Bonds may hold their 2005 Bonds through DTC (in the United States) or Clearstream or

Euroclear (in Europe) if they are participants of such systems, or indirectly through organizations which are participants in such systems.

The 2005 Bonds will initially be registered in the name of Cede & Co., the nominee of DTC. Clearstream and Euroclear may hold omnibus positions on behalf of their participants through customers' securities accounts in Clearstream's and Euroclear's names on the books of their respective depositories which in turn will hold such positions in customers' securities accounts in the depositories' names on the books of DTC.

Transfers of the 2005 Bonds between DTC Participants will occur in accordance with DTC Rules. Transfers between Clearstream Participants and Euroclear Participants will occur in accordance with their respective rules and operating procedures. Because of time zone differences, credits of securities received in Clearstream or Euroclear as a result of a transaction with a Participant will be made during subsequent securities settlement processing and dated the business day following the DTC settlement date. Such credits or any transactions in such securities settled during such processing will be reported to the relevant Euroclear or Clearstream Participants on such business day. Cash received in Clearstream or Euroclear as a result of sales of securities by or through a Clearstream Participant or Euroclear Participant to a Participant will be received with value on the DTC settlement date but will be available in the relevant Clearstream or Euroclear cash account only as of the business day following settlement in DTC.

Cross-market transfers between persons holding directly or indirectly through DTC, on the one hand, and directly or indirectly through Clearstream Participants or Euroclear Participants, on the other, will be effected in DTC in accordance with DTC Rules on behalf of the relevant European international clearing system by its Depository; however, such cross-market transactions will require delivery of instructions to the relevant European international clearing system by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (European time). The relevant European international 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 securities in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Clearstream Participants and Euroclear Participants may not deliver instructions to the Depositories.

The information in this section concerning DTC and DTC's book-entry system has been obtained from DTC, and the Corporation takes no responsibility for the accuracy thereof.

THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT THE DIRECT OR INDIRECT PARTICIPANTS OF DTC, OR DIRECT PARTICIPANTS OF CLEARSTREAM OR EUROCLEAR, WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE 2005 BONDS (i) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE 2005 BONDS, (ii) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN 2005 BONDS, OR (iii) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE 2005 BONDS, OR THAT THEY WILL DO SO ON A TIMELY BASIS. FURTHER, THE CORPORATION, THE TRUSTEE AND THE UNDERWRITERS CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, DTC'S DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS, CLEARSTREAM'S PARTICIPANTS OR EUROCLEAR'S PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFERING MEMORANDUM.

NEITHER THE CORPORATION NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT OR INDIRECT PARTICIPANT OF DTC, CLEARSTREAM OR EUROCLEAR, OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) THE 2005 BONDS; (2) THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC, ANY DIRECT OR INDIRECT PARTICIPANT OF DTC, CLEARSTREAM, ANY CLEARSTREAM PARTICIPANT, EUROCLEAR OR ANY EUROCLEAR PARTICIPANT; (3) THE PAYMENT BY DTC, ANY DIRECT OR INDIRECT PARTICIPANT OF DTC, CLEARSTREAM, ANY CLEARSTREAM PARTICIPANT, EUROCLEAR OR ANY EUROCLEAR PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER, IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE 2005 BONDS; (4) THE DELIVERY BY DTC, ANY DIRECT OR INDIRECT PARTICIPANT OF DTC, CLEARSTREAM, ANY CLEARSTREAM PARTICIPANT, EUROCLEAR OR ANY EUROCLEAR PARTICIPANT, OF ANY NOTICE TO ANY BENEFICIAL OWNER WHICH IS REQUIRED OR PERMITTED UNDER THE TERMS OF THE RESOLUTION TO BE GIVEN TO 2005 BONDHOLDERS; (5) THE

SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OR OTHER PAYMENT OF THE 2005 BONDS; OR (6) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS THE HOLDER AND REGISTERED OWNER OF THE 2005 BONDS.

#### **Discontinuation of Book-Entry Only System**

If, at any time, DTC notifies the Corporation that it is unwilling or unable to continue as Securities Depository with respect to the 2005 Bonds; or if, at any time, DTC is no longer registered or in good standing under the Securities Exchange Act and a successor Securities Depository is not approved by the Corporation within ninety (90) days after the Corporation receives notice or becomes aware of such condition, the book-entry only system for the 2005 Bonds shall be discontinued. In addition, the Corporation may discontinue the book-entry only system for the 2005 Bonds at any time, by giving reasonable notice to DTC (or any successor securities depository).

In the event that the book-entry only system for the 2005 Bonds is discontinued, the following provisions would apply, subject in each case to further conditions set forth in the Resolution.

#### *Delivery of Certificates; Registered Owners*

Certificates for 2005 Bonds in fully registered form would be delivered to, and registered in the names of, the Direct Participants, or such other persons as such Direct Participants may specify (which may be the Indirect Participants or Beneficial Owners), in authorized denominations. The ownership of the 2005 Bonds so delivered (and any 2005 Bonds thereafter delivered upon a transfer or exchange described below) would be registered in the registration books to be kept by the Trustee as the Bond Registrar of the Corporation. Except as provided in the Resolution, the Corporation and the Trustee would be entitled to treat the registered owners of such 2005 Bonds, as their names appear in such registration books as of the appropriate dates, as the owners thereof for all purposes described herein and in the Resolution.

#### *Payment of 2005 Bonds*

The principal of the 2005 Bonds would be payable upon surrender thereof at the principal corporate trust office of the Trustee, and interest would be payable by check or draft mailed by the Trustee to the registered owners of the 2005 Bonds as shown on the registration books of the Corporation maintained at the office of the Trustee as Bond Registrar as of the close of business on the Record Date for such Interest Payment Date. Upon receipt of a written request by the Trustee, the Trustee would pay interest to any registered owner of 2005 Bonds in the aggregate principal amount of \$1,000,000 or more by wire transfer or by such other method as is acceptable to the Trustee and such registered owner of 2005 Bonds.

#### *Transfers and Exchanges*

The 2005 Bonds would be exchangeable at the principal office of the Trustee for a like aggregate principal amount of 2005 Bonds of other authorized denominations, and the execution by the Corporation of any 2005 Bond of any denomination would constitute full and due authorization of such denomination. The Trustee would thereby be authorized to authenticate and deliver such fully registered 2005 Bond. Upon surrender for transfer of any fully registered 2005 Bond at the principal office of the Trustee, the Corporation would execute and the Trustee would authenticate and deliver in the name of the transferee(s) a new fully registered 2005 Bond for a like aggregate principal amount.

The Trustee will require the payment by the Bondholder of any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer, provided that the Trustee may not exchange or register the transfer of any 2005 Bond being called for redemption after the Record Date with respect to the redemption of such 2005 Bond.

## THE PLEDGED ASSETS

### General

The 2005 Bonds and all Bonds issued under the General Resolution are limited obligations of the Corporation, secured by and payable from the “Pledged Assets.” Under the General Resolution, Pledged Assets securing the Bonds are:

- Guaranteed Loans pledged under the General Resolution. *See “EXPECTED APPLICATION OF 2005 BOND PROCEEDS.”* Each Guaranteed Loan is to be insured or guaranteed and reinsured as described herein.
- Interest payments with respect to Guaranteed Loans made by or on behalf of borrowers.
- All amounts received in respect of payment of principal on Guaranteed Loans held by the Corporation, including scheduled, delinquent and advance payments, payouts or prepayments, and proceeds from the guarantee, or from the sale, assignment or other disposition of Guaranteed Loans.
- Any applicable “Special Allowance Payments” authorized to be made by the Secretary in respect of Guaranteed Loans pursuant to Section 438 of the Higher Education Act or similar allowances authorized from time to time by federal law or regulation.
- Any applicable “Interest Subsidy Payments” payable in respect of any Guaranteed Loans by the Secretary under Section 428 of the Higher Education Act.
- Any moneys and securities from time to time held by the Trustee under the terms of the Resolution (excluding moneys and securities held, or required to be deposited, in the Rebate Fund) and any and all other real or personal property of every name and nature held from time to time by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security under the Resolution.

For a description of the Funds established by the Resolution, *see EXHIBIT III – “SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION.”*

### The Portfolios of Guaranteed Loans - Summary Information

The net proceeds of the 2005 Bonds will be used initially to finance and refinance the acquisition and the making of Guaranteed Loans. Such Guaranteed Loans to be financed with proceeds of the 2005 Bonds and the Guaranteed Loans financed with proceeds of the Prior Bonds constitute a substantial portion of the Pledged Assets securing the Prior Bonds and the 2005 Bonds. The following charts provide summary information concerning certain characteristics of \$1,245,720,547 Guaranteed Loans financed by the Prior Bonds and \$262,445,866 of Guaranteed Loans to be financed by the 2005 Bonds based on information with respect thereto as of May 31, 2005. An additional \$51 million of Guaranteed Loans is expected to be financed by the 2005 Bonds by the Closing Date. This information, particularly specific dollar amounts that change as a result of payments received, may have changed since that date.

Please note that percentages and numbers appearing in the following tables have been rounded to the nearest one-tenth of one percent and nearest whole number respectively. Due to such rounding, the sum of the percentages or numbers in any particular column may not exactly equal the totals shown.

### **General Information**

Current Principal Balance	\$1,508,166,413
Current Principal Balance – Treasury Bill	\$339,848,597
Current Principal Balance – Commercial Paper	\$1,168,094,067
Current Principal Balance – Treasury Bill – Other	\$223,749
Number of Loans	382,849
Average Balance Per Loan	\$3,939
Number of Borrowers	134,871
Average Balance Per Borrower	\$11,182
Average Balance Per Borrower – Consolidation Loans	\$25,285
Average Balance Per Borrower – Non-Consolidation Loans	\$8,391
Weighted Average Borrower Interest Rate*	3.89%
Weighted Average Remaining Term to Scheduled Maturity**	164.20 months

\*Not adjusted for any special allowance payments or any interest rate reductions earned by the borrowers. See “*THE CORPORATION – Borrower Benefit Programs*” herein for a description of such possible reductions.

\*\*Determined from the statistical cut-off date of May 31, 2005 to the stated maturity date of the applicable loan, including any remaining school period, grace period, current deferment or forbearance periods and repayment period, but without giving effect to any deferment or forbearance periods that may be granted in the future.

### **Loan Type Distribution**

<u>Loan Type</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Subsidized Stafford Loans	\$568,827,159	37.7%	221,243
Unsubsidized Stafford Loans	351,315,329	23.3%	113,854
PLUS	32,110,078	2.1%	9,976
SLS	1,126,321	0.1%	394
Subsidized Consolidation Loans	285,619,111	18.9%	18,669
Unsubsidized Consolidation Loans	<u>269,168,415</u>	<u>17.9%</u>	<u>18,713</u>
<b>Total</b>	<u>\$1,508,166,413</u>	<u>100.0%</u>	<u>382,849</u>

### **Borrower Rate Distribution**

<b>Borrower Rate</b>	<b>Current Principal Balance</b>	<b>Percent of Total</b>	<b>Number of Loans</b>
2.00% to 2.99%	\$537,612,550	35.6%	155,647
3.00% to 3.99%	424,694,460	28.2%	115,679
4.00% to 4.99%	329,432,308	21.8%	93,448
5.00% to 5.99%	33,897,017	2.3%	4,554
6.00% to 6.99%	88,761,956	5.9%	5,804
7.00% to 7.99%	43,965,042	2.9%	2,700
8.00% and greater	49,813,080	3.3%	5,017
<b>Total</b>	<b><u>\$1,508,166,413</u></b>	<b><u>100.0%</u></b>	<b><u>382,849</u></b>

### **Distribution by Remaining Term to Scheduled Maturity**

<b>Remaining Months to Scheduled Maturity*</b>	<b>Current Principal Balance</b>	<b>Percent of Total</b>	<b>Number of Loans</b>
1 - 12	\$1,115,627	0.1%	3,345
13 - 24	4,437,228	0.3%	6,893
25 - 36	9,795,687	0.6%	9,766
37 - 48	16,158,011	1.1%	11,960
49 - 60	22,337,610	1.5%	13,441
61 - 72	29,160,113	1.9%	15,038
73 - 84	39,133,908	2.6%	16,737
85 - 96	56,676,911	3.8%	20,606
97 - 108	86,375,041	5.7%	30,181
109 - 120	187,758,807	12.4%	61,715
121 - 132	246,642,313	16.4%	71,115
133 - 144	162,937,769	10.8%	46,250
145 - 156	98,856,652	6.6%	27,317
157 - 168	68,042,380	4.5%	16,784
169 - 180	40,351,936	2.7%	7,475
181 - 192	16,907,920	1.1%	2,585
193 - 204	26,804,148	1.8%	2,326
205 - 216	43,956,861	2.9%	3,491
217 - 228	48,385,500	3.2%	3,394
229 - 240	51,041,202	3.4%	3,459
241 - 252	17,419,359	1.2%	1,066
253 - 264	17,338,820	1.1%	842
265 - 276	23,680,379	1.6%	1,116
277 - 288	27,881,808	1.8%	1,240
289 - 300	30,469,391	2.0%	1,268
300+ months	134,501,035	8.9%	3,439
<b>Total</b>	<b><u>\$1,508,166,413</u></b>	<b><u>100.0%</u></b>	<b><u>382,849</u></b>

\*Determined from the statistical cut-off date of May 31, 2005 to the stated maturity date of the applicable loan, including any remaining school period, grace period, current deferment or forbearance periods and repayment period, but without giving effect to any deferment or forbearance periods that may be granted in the future.

### **Borrower Status Distribution**

<u>Loan Status</u>	Current Principal <u>Balance</u>	Percent <u>of Total</u>	Number <u>of Loans</u>
School	\$254,670,313	16.9%	79,220
Grace	149,408,735	9.9%	42,575
Deferment	209,242,911	13.9%	50,362
Forbearance	138,429,247	9.2%	27,842
Repayment			
First year of repayment	232,481,611	15.4%	52,829
Second year of repayment	167,162,276	11.1%	29,621
Third year of repayment	154,074,343	10.2%	25,270
More than 3 years of repayment	200,518,621	13.3%	74,495
Claim	<u>2,178,356</u>	<u>0.1%</u>	<u>635</u>
<b>Total</b>	<b><u>\$1,508,166,413</u></b>	<b><u>100.0%</u></b>	<b><u>382,849</u></b>

### **School Type Distribution**

<u>School Type</u>	Current Principal <u>Balance</u>	Percent <u>of Total</u>	Number <u>of Loans</u>
Four-Year Public & Private Nonprofit	\$1,384,521,740	91.8%	325,968
Two-Year Public & Private Nonprofit	97,822,824	6.5%	50,998
For Profit / Vocational	11,938,823	0.8%	4,839
Consolidation or Unknown	<u>13,883,026</u>	<u>0.9%</u>	<u>1,044</u>
<b>Total</b>	<b><u>\$1,508,166,413</u></b>	<b><u>100.0%</u></b>	<b><u>382,849</u></b>

### **Guarantee Percentage Distribution**

<u>Guarantee Percentage</u>	Current Principal <u>Balance</u>	Percent <u>of Total</u>	Number <u>of Loans</u>
100% Guaranteed	\$406,460,151	27.0%	146,489
98% Guaranteed	<u>1,101,706,262</u>	<u>73.0%</u>	<u>236,360</u>
<b>Total</b>	<b><u>\$1,508,166,413</u></b>	<b><u>100.0%</u></b>	<b><u>382,849</u></b>

**Geographic Distribution By Borrower Address**

<u>State</u>	<u>Current Principal Balance</u>	<u>Percent of Total</u>	<u>Number of Loans</u>
Alabama	\$6,181,834	0.4%	1,282
Alaska	630,385	0.0%	177
Arizona	2,912,934	0.2%	600
Arkansas	1,192,335	0.1%	263
California	11,535,907	0.8%	2,288
Colorado	3,657,671	0.2%	793
Connecticut	4,330,675	0.3%	1,012
Delaware	1,746,871	0.1%	417
District of Columbia	2,819,298	0.2%	540
Florida	33,482,934	2.2%	7,078
Georgia	67,841,027	4.5%	15,836
Hawaii	1,173,620	0.1%	216
Idaho	459,639	0.0%	122
Illinois	6,105,385	0.4%	1,211
Indiana	3,737,811	0.2%	842
Iowa	1,285,155	0.1%	262
Kansas	965,888	0.1%	237
Kentucky	4,832,853	0.3%	1,132
Louisiana	4,202,324	0.3%	784
Maine	1,608,884	0.1%	310
Maryland	16,417,614	1.1%	3,405
Massachusetts	6,625,256	0.4%	1,397
Michigan	4,323,639	0.3%	829
Minnesota	1,681,927	0.1%	303
Mississippi	2,300,609	0.2%	461
Missouri	2,068,983	0.1%	515
Montana	438,405	0.0%	111
Nebraska	923,120	0.1%	162
Nevada	969,441	0.1%	275
New Hampshire	1,170,620	0.1%	256
New Jersey	9,313,078	0.6%	2,503
New Mexico	741,292	0.0%	152
New York	16,589,019	1.1%	3,835
North Carolina	77,273,594	5.1%	15,795
North Dakota	212,789	0.0%	60
Ohio	8,581,367	0.6%	2,013
Oklahoma	1,354,215	0.1%	281
Oregon	1,490,137	0.1%	297
Pennsylvania	11,442,515	0.8%	2,494
Rhode Island	1,064,768	0.1%	247
South Carolina	1,114,078,550	73.9%	297,551
South Dakota	353,581	0.0%	75
Tennessee	13,854,075	0.9%	2,692
Texas	14,358,691	1.0%	2,943
Utah	1,306,793	0.1%	221
Vermont	903,691	0.1%	210
Virginia	25,810,971	1.7%	5,638
Washington	2,702,658	0.2%	565
West Virginia	1,941,745	0.1%	488
Wisconsin	2,330,990	0.2%	388
Wyoming	317,633	0.0%	43
Other	<u>4,521,221</u>	<u>0.3%</u>	<u>1,242</u>
<b>TOTAL</b>	<b><u>\$1,508,166,413</u></b>	<b><u>100.0%</u></b>	<b><u>382,849</u></b>



## **Subsequently Acquired Guaranteed Loans**

Payments, or portions thereof, received with respect to Pledged Assets, including subsequently acquired Guaranteed Loans, may be used and reused to finance and refinance the acquisition or making of additional or other Guaranteed Loans. The Corporation shall not, however, direct that amounts be transferred to the Loan Account either (i) to finance Guaranteed Loans having characteristics that are materially and adversely different from the characteristics shown in the most recent cash flow projections provided to the Rating Agencies unless the Corporation first obtains confirmation of the ratings on the Bonds by each Rating Agency, or (ii) after June 30, 2007, unless such date is extended by each Rating Agency.

## **The Debt Service Reserve Fund**

The Senior Lien Account of the Debt Service Reserve Fund is a common reserve fund which equally secures all Senior Lien Bonds. If, on any date that principal or interest on Senior Lien Bonds is due and payable, there are insufficient moneys in the Principal Account or Interest Account, as the case may be, to make the required payment, then moneys in the Senior Lien Account and the Subordinate Lien Account of the Debt Service Reserve Fund shall be applied to pay the principal of and interest on Senior Lien Bonds then due and payable.

The Debt Service Reserve Requirement is equal to the greatest of:

- the sum of the reserve requirements for each Series of Bonds;
- 0.1% times the original principal amount of all Tranches Outstanding as of the date of calculation; or
- \$750,000.

The reserve requirement with respect to the 2005 Bonds will be an amount such that there shall not be less than 1% of all Bonds Outstanding on deposit in the Debt Service Reserve Fund. After issuance of the 2005 Bonds and redemption of the Prior Bonds with proceeds of the 2005 Bonds, the balance in the Senior Lien Account of the Debt Service Reserve Fund is expected to equal \$14,593,720, which is 1% of the principal balance of all Bonds expected to be Outstanding.

## **CERTAIN ASSUMPTIONS AND CONSIDERATIONS**

Based on what are believed to be reasonable assumptions regarding the current and future composition of and yield on the portfolio of Guaranteed Loans, the rate of return on moneys invested in various Funds under the Resolution, and the occurrence of future events and conditions, the Corporation expects that the Pledged Assets will be sufficient to meet principal and interest payments due on the Prior Bonds and the 2005 Bonds. However, there is no assurance, for example, that the amount and timing of Guaranteed Loans currently held or to be acquired will conform to current expectations, that interest and principal payments from the Guaranteed Loans will be received as anticipated, that the reinvestment rates assumed on the balances in various Funds will be realized, or that Special Allowance Payments, Interest Subsidy Payments and reimbursements and payments with respect to Guaranteed Loans will be received in the amounts and at the times anticipated. Moreover, future events over which the Corporation has no control may materially adversely affect the Corporation's actual receipt of Revenues Available for Debt Service.

In particular, the assumed receipt of principal payments on Guaranteed Loans may be accelerated due to various factors, including, among others:

- default claims or claims due to the disability, death or bankruptcy of the borrowers greater than those assumed;
- actual principal amortization periods that are shorter than those assumed based upon the current analysis of the Corporation's Guaranteed Loan portfolio;

- the commencement of principal repayment by borrowers on dates earlier than those assumed based upon the current analysis of the Corporation's Guaranteed Loan portfolio;
- principal prepayments due to refinancing or consolidation of Guaranteed Loans;
- economic conditions that encourage borrowers to refinance or prepay their loans prior to maturity; and
- changes in federal law, which may affect the timing of the receipt of funds by the Corporation.

In addition, the assumed receipt of principal and interest payments on Guaranteed Loans may be delayed or reduced due to numerous factors, including, among others:

- borrowers entering deferment periods due to a return to school or other eligible purposes;
- forbearance being granted to borrowers;
- Guaranteed Loans becoming delinquent for periods longer than assumed;
- actual loan principal amortization periods that are longer than those assumed, including, but not limited to, consolidation refinancings by the Corporation of loans constituting Pledged Assets, resulting in longer repayment periods;
- the commencement of principal repayment by borrowers at dates later than those assumed based upon the current analysis of the Guaranteed Loan portfolio; and
- changes in federal law, which may affect the timing of the receipt of funds by the Corporation.

## **EXPECTED APPLICATION OF 2005 BOND PROCEEDS**

Proceeds of the 2005 Bonds shall be deposited in (i) the Senior Lien Account of the Debt Service Reserve Fund to meet the Debt Service Reserve Requirement for the 2005 Bonds; (ii) the Principal Account of the Debt Service Fund to redeem certain Prior Bonds; and, (iii) the Cost of Issuance Account in the Program Fund in an amount sufficient to pay costs of issuance of the 2005 Bonds. The Trustee will withdraw moneys from the Cost of Issuance Account from time to time for the purpose of paying such costs of issuance, and moneys so withdrawn and paid shall be free and clear of the pledge created by the General Resolution.

After the foregoing deposits are made, the remainder of the principal proceeds of the 2005 Bonds will be deposited in the Taxable Bond Subaccount of the Loan Account of the Program Fund. The Corporation expects that substantially all of the proceeds of the 2005 Bonds deposited in the Taxable Bond Subaccount of the Loan Account will be utilized on or about the settlement date to finance and refinance the acquisition and the making of Guaranteed Loans; provided, that all such proceeds deposited in the Taxable Bond Subaccount of the Loan Account of the Program Fund must be disbursed on or prior to June 30, 2006 (or such later date as may be confirmed by the Rating Agencies) to finance and refinance the acquisition and the making of Guaranteed Loans. If any moneys shall remain after June 30, 2006 (or such later date as may be confirmed by the Rating Agencies), any excess shall be deposited in the Principal Account of the Debt Service Fund and applied first to Principal Reduction Payments next coming due on any Bonds Outstanding and then to the redemption of Bonds which are subject to redemption.

The Corporation presently estimates that the proceeds of the sale of the 2005 Bonds will be applied approximately as follows:

Deposit to the Loan Account of Program Fund, to be used to finance or acquire Guaranteed Loans .....	\$314,161,570
Deposit to the Debt Service Reserve Fund .....	6,128,930
Optionally redeem Education Loan Revenue Bonds .....	376,400,000
Underwriting discount and deposit to the Program Fund to pay certain other Costs of Issuance .....	<u>3,309,500</u>
Total.....	<u>\$700,000,000</u>

## THE CORPORATION

The Corporation is a nonprofit, public benefit corporation incorporated on November 15, 1973, pursuant to the laws of the State of South Carolina. The Corporation received its final 501(c)(3) determination letter from the U.S. Internal Revenue Service ("IRS") on June 30, 1979, which determination letter has not been amended, revoked, withdrawn or rescinded.

Under its Restated and Amended Articles of Incorporation, the Corporation has the power to receive, invest, administer and disburse funds for educational purposes so as to enable persons to attend eligible educational institutions beyond the secondary school level and to make, handle, service and deal with student and parent loans as provided in the Higher Education Act. The Corporation has been designated by the Authority as an "Eligible Lender" pursuant to Title IV of the Higher Education Act and, as agent of and independent contractor with the Authority, the Corporation serves as the principal originator and servicer of Guaranteed Loans guaranteed by the Authority.

### Management and Administration

The Corporation is governed by its Board of Directors, which may officially act by a majority of its members. Effective July 1, 2005, the Corporation's Chairman and other Directors are as follows:

#### Board of Directors of the Corporation (effective July 1, 2005) \*

<u>Name of Director</u>	<u>Principal Occupation</u>	<u>Term Ends</u>
Sharon W. Bryant, Chairman	Executive Vice President, First Citizens Bank and Trust Company of South Carolina	6/30/06
Dr. Dennis A. Pruitt, Sr., Vice Chairman	Vice President for Student & Alumni Services and Dean of Students, University of South Carolina	6/30/06
Thomas A. Little, Jr., Vice Chairman	Chief Human Resources Executive, NetBank, Inc.	6/30/08
T. Graham Edwards, Treasurer	Former Chairman, Board of Directors, South Carolina Public Service Authority (Santee Cooper)	6/30/06
William M. Mackie, Jr., Secretary	President and CEO, South Carolina Student Loan Corporation	6/30/07

<u>Name of Director</u>	<u>Principal Occupation</u>	<u>Term Ends</u>
Dr. Julia Boyd	Executive Director of Community Relations, Richland School District Two	6/30/08
Marvin G. Carmichael	Special Assistant to the President and Director of Financial Aid, Clemson University	6/30/08
William G. McMaster	Vice President, Scott & Stringfellow, Inc.	6/30/06
Timothy E. Madden	Managing Partner, Wilkins & Madden, PA	6/30/08
Lisa P. Montgomery	CFO, Medical University Hospital Authority Vice President for Finance & Administration, Medical University of South Carolina	6/30/07
J. Edward Norris, III	Chairman, President and CEO Plantation Federal Bank	6/30/07
Dr. Caroline B. Whitson	President, Columbia College	6/30/07

\* The following were members of the Board of Directors on May 10, 2005 which authorized the 2005 Series Resolution: Robert W. Derrick (Chairman, term expires 6/30/05), Sharon W. Bryant (Vice Chairman), Dr. Dennis A. Pruitt, Sr. (Vice Chairman), Thomas A. Little, Jr. (Treasurer), William M. Mackie, Jr. (Secretary), Melvin E. Barnette (Director, term expires 6/30/05), T. Graham Edwards (Director), Dr. Ronald L. Epps (Director), J. Thornton Kirby (Director, term expires 6/30/05), William G. McMaster (Director), Lisa P. Montgomery (Director) and Dr. Caroline B. Whitson (Director).

The Corporation's principal office is located at Interstate Center, Suite 210, 16 Berryhill Road, Columbia, South Carolina 29210, and its telephone number is (803) 772-9480. The Corporation employs a staff of approximately 217 people. The Corporation's Senior Management is as follows:

#### **Senior Management**

William M. Mackie, Jr., *President and CEO*  
Charlie C. Sanders, Jr., *Executive Vice President and COO*  
Randall G. Thompson, *Senior Vice President*  
Norma M. Bowman, *Vice President-Human Resources*  
Michael E. Fox, *Vice President-Guaranty Agency Services*  
Jennifer A. Jones-Gaddy, *Vice President-Loan Originations*  
Wayne R. Kirby, *Vice President-Information Systems*  
Gerald I. Long, *Vice President-Repayment Services*  
Laura J. Rowell, *Vice President-Fiscal Operations*

William M. Mackie, Jr. serves as President and Chief Executive Officer of the Corporation and is responsible for overall corporate management and direction. Mr. Mackie also serves as Secretary of the Corporation's Board of Directors. He has served as the Corporation's chief executive officer since its founding in 1974. Mr. Mackie previously served as the Associate Director of Admissions and Financial Aid at Wake Forest University from 1964 to 1974. He received a B.S. and an M.Ed. from Wake Forest University. Mr. Mackie is professionally very active in the National Council of Higher Education Loan Programs, having served as its President in 1992-93, and currently serves as a member of its Board of Directors. He also serves as a member of the Board of Directors of the National Student Clearinghouse.

Charlie C. Sanders, Jr. serves as Executive Vice President and Chief Operating Officer of the Corporation and is responsible for the day-to-day management and coordination of all corporate business activities. Mr. Sanders served as Director of Investments and Debt Management for the South Carolina State Treasurer's Office from 1988 to 2001. He received his B.S. in Banking and Finance from the University of South Carolina.

Mr. Sanders serves as a member of the Common Manual Governing Board and a member of the Student Loan Servicing Alliance. He also serves as a member of the Board of Directors of the Greater Columbia Educational Advancement Foundation.

### **Program Administration**

In its administration of the Student Loan Finance Program for the Authority, the Corporation serves as a central, statewide lender and assists students and parents in obtaining funds to attend institutions of post-secondary education within or beyond the boundaries of the State of South Carolina. Since its inception, the Corporation has originated more than 1,186,000 loans to more than 335,000 students and parents.

### **Servicing of Guaranteed Loans**

Since May 31, 1979, the Corporation has serviced all student and parent loans it has made, all student and parent loans made by the Authority, and all student and parent loans financed or owned by various commercial banks, pending purchase by the Corporation of such loans from the proceeds of a series of bonds.

The Corporation provides the personnel necessary to perform all servicing of Guaranteed Loans, which services include, but are not limited to:

- verifying that all required documents for each Guaranteed Loan have been delivered and that each loan qualifies as a Guaranteed Loan;
- maintaining and updating all loan records;
- performing due diligence necessary to collect loans according to standards set by the Secretary and the Authority, as applicable;
- taking any action necessary to collect delinquent loans; and
- performing any other functions associated with the servicing of Guaranteed Loans.

As of May 31, 2005, the aggregate principal amount of Guaranteed Loans being serviced by the Corporation was approximately \$2.1 billion. Since the inception of the Corporation, the cumulative aggregate principal amount of Guaranteed Loans serviced by the Corporation totals approximately \$4.9 billion. Shown in the table below is information with respect to guarantee claims filed by the Corporation in recent years with regard to Guaranteed Loans serviced by the Corporation. There can be no assurance that the Corporation's experience, as reflected in the table, will not be materially different in the future.

### **Static Analysis of Guarantee Claims, Rejects & Cures**

<b>Federal Fiscal Year</b>	<b>Total Claims Filed<sup>1</sup></b>	<b>Gross Reject Amount<sup>1</sup></b>	<b>Gross Reject Rate</b>	<b>Cure Amount<sup>2</sup></b>	<b>Net Reject Amount</b>	<b>Net Reject Rate</b>
2000	\$13,590,831	\$0	0.00%	\$0	\$0	0.00%
2001	19,748,958	46,302	0.23%	44,347	1,955	0.01%
2002	21,865,057	107,569	0.49%	99,149	8,421	0.04%
2003	20,337,026	16,854	0.08%	16,854	0	0.00%
2004	20,224,909	0	0.00%	0	0	0.00%
<b>Grand Total</b>	<b>\$95,766,781</b>	<b>\$170,725</b>	<b>0.18%</b>	<b>\$160,350</b>	<b>\$10,376</b>	<b>0.01%</b>

<sup>1</sup> Includes 100% of principal and interest, rather than only the guaranteed portion. Also includes lender-of-last-resort loan claims as well as claims for deaths, disabilities and bankruptcies. Loans which are subsequently rehabilitated or repurchased are not netted from the claims filed.

<sup>2</sup> Amount of the rejects which had been cured as of May 31, 2005.

## Borrower Benefit Programs

For Guaranteed Loans financed with the proceeds of the 2005 Bonds, the Corporation offers certain borrower benefits in the form of interest rate reductions for prompt and regular payments or payments made by automatic bank draft, as well as partial loan forgiveness for borrowers who earn educational degrees. Please see [www.sccstudentloan.org](http://www.sccstudentloan.org) for more information relating to repayment incentives and borrower benefits.

Although such repayment incentives and borrower benefits may decrease the payments to be received from the Guaranteed Loans, the Corporation does not expect these repayment incentives and borrower benefits to impair its ability to make payments of principal of and interest on the 2005 Bonds when due. The Corporation has no contractual obligations regarding the incentives described above, and the Corporation may discontinue, increase or modify these incentives at any time.

## Other Programs

The Corporation currently administers other loan programs in the State of South Carolina, including a Teachers Loan Program and a Palmetto Assistance Loan Program, an alternative loan program. Loans made under this program are not pledged as security for the benefit of any Bonds of the Corporation.

## Financial Information

Certain financial information with respect to the Corporation is provided in EXHIBIT IV hereto. Such financial information is furnished as of the date shown thereon; and, although the Corporation believes such information to be materially correct as of its date, there can be no assurance that the financial condition of the Corporation has not changed between the date of such information and the date of this Offering Memorandum. The Corporation makes no representation that such changes have not occurred.

## Corporation Debt Outstanding

In addition to the 2005 Bonds, the Corporation has other Outstanding Senior Lien Bonds under the June 7, 1996 General Resolution. The General Resolution permits the issuance of Additional Bonds as Senior Lien Bonds or as Subordinate Lien Bonds. As of the date hereof, no Subordinate Lien Bonds have been issued under the General Resolution. The following table shows information with respect to the Corporation's other Outstanding Senior Lien Bonds under the General Resolution before the issuance of the 2005 Bonds.

Series	Original Par Amount	Outstanding Par Amount	Final Maturity	Interest Rate Basis	Payment Frequency
1996 Series A-3	85,000,000	85,000,000	09/01/26	Auction Rate	28 Days
1997 Series A-3	80,000,000	80,000,000	09/01/27	Auction Rate	28 Days
1998 Series A-1	105,700,000	105,700,000	09/01/33	Auction Rate	7 Days
1998 Series A-2	105,700,000	105,700,000	09/01/33	Auction Rate	28 Days
2001 Series L	200,000,000	137,186,000	06/01/12	LIBOR Indexed	Quarterly
2001 Series CP	200,000,000	137,186,000	06/01/12	CP Indexed	Quarterly
2002 Series L	160,000,000	160,000,000	06/01/13	LIBOR Indexed	Quarterly
2002 Series CP	50,000,000	50,000,000	06/01/13	CP Indexed	Quarterly
2003 Series A-1	75,000,000	75,000,000	06/01/33	Auction Rate	28 Days
2003 Series A-2	67,000,000	67,000,000	06/01/33	Auction Rate	28 Days
2003 Series A-3	67,000,000	67,000,000	06/01/33	Auction Rate	28 Days
2003 Series A-4	66,000,000	66,000,000	06/01/43	Auction Rate	28 Days
<b>Totals</b>	<b>\$1,261,400,000</b>	<b>\$1,135,772,000</b>			

The 1996, 1997, 1998, 2001, 2002 and 2003 Bonds are collectively referred to herein as the “Prior Bonds.” The Prior Bonds, the 2005 Bonds and permitted Additional Bonds issued by the Corporation are collectively referred to herein as the “Bonds.”

The Corporation intends to optionally redeem the 1996 Bonds, 1997 Bonds and 1998 Bonds with a portion of the proceeds of the 2005 Bonds.

In 2004, the Corporation issued \$180,000,000 of Student Loan Backed Notes under a separate trust estate established by a General Resolution dated November 9, 2004.

The Corporation has an existing \$150,000,000 line of credit with the Royal Bank of Canada which is used to finance or refinance the acquisition or making of certain eligible loans.

## **SOUTH CAROLINA STATE EDUCATION ASSISTANCE AUTHORITY**

The Authority is a body politic and corporate and a public instrumentality of the State of South Carolina. It was created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976, as amended (the “Act”). The constitutionality of the Act was sustained in Durham v. McLeod, 259 S.C. 409, 192 S.E.2d 202 (1972), appeal dismissed 413 U.S. 902 (1973).

The Authority was originally created in order to provide a means of making loans to students in order to enable them to attend institutions of higher learning, post-secondary business, trade or technical educational schools, and vocational and training schools that have been approved by the Authority. Such institutions may be located within or beyond the boundaries of the State of South Carolina.

The Authority is governed by its members who, under the Act, are the members of the State Budget and Control Board of South Carolina. The Authority’s address is Office of State Treasurer, P.O. Box 11778, Columbia, South Carolina 29211. As of the date hereof the members of the Authority are as follows:

### **Members of the Authority**

#### **Name of Member**

Hon. Mark Sanford  
Hon. Grady L. Patterson, Jr.  
Hon. Richard Eckstrom  
Hon. Hugh K. Leatherman, Sr.  
Hon. Daniel T. Cooper

#### **Office Held**

Governor of South Carolina  
State Treasurer of South Carolina  
Comptroller General of South Carolina  
Chairman, South Carolina Senate Finance Committee  
Chairman, South Carolina House of  
Representatives Ways and Means Committee

The program through which the Authority conducts its guarantee activities is herein referred to as the “Student Loan Insurance Program.”

### **Student Loan Insurance Program**

In May of 1978, the Authority initiated its Student Loan Insurance Program and commenced guaranteeing Guaranteed Loans as the Guaranty Agency for the State of South Carolina under Section 428(c) of the Higher Education Act. In order to effectively administer its Student Loan Insurance Program, the Authority processes loans submitted for guarantee, issues loan guarantees, provides collection assistance for delinquent loans, pays claims for loans in default, collects loans on which default claims have been paid and makes appropriate responses to the Secretary. The Authority is also responsible for initiating policy and performing compliance reviews as required by the Higher Education Act with respect to certain schools participating in the Student Loan Insurance Program. As of May 31, 2005, the outstanding principal amount of Guaranteed Loans guaranteed by the Authority, and originated and serviced by the Corporation, was \$2.1 billion, of which approximately \$1.2 billion was in repayment status.

For a further description of the terms and conditions of these types of loans, *see EXHIBIT I – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”*

Pursuant to the Authority’s Student Loan Insurance Program, any eligible holder of a loan guaranteed by the Authority, including the Authority in its capacity as an eligible holder, is currently entitled to reimbursement from the Authority for 100% of any proven loss incurred resulting from the default, death, permanent and total disability, or discharge in bankruptcy of the borrower for loans disbursed prior to October 1, 1993, and 98% of any proven loss incurred with respect to defaulted claims (and 100% of any proven loss with respect to certain other claims) for loans disbursed thereafter. *See EXHIBIT I – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”*

The Authority must pay a lender for a defaulted loan prior to submitting a claim to the Secretary for reimbursement. The Authority’s experience is that reimbursement from the Secretary occurs approximately forty-five (45) days from the time a request is submitted for reimbursement. The Higher Education Act requires the Authority submit a request for reimbursement by the Secretary within forty-five (45) days from the date the claim is paid. Under present practice, after the Secretary reimburses the Authority for a default claim paid on a Guaranteed Loan, the Authority must continue to seek repayment from the borrower. Following are the Authority’s default and recovery rates for the federal fiscal years set forth below:

Federal Fiscal Year Ended September 30	Default Claims	Default Rate (Trigger Rate)*	Recoveries	Recovery Rate
1998	5,917,897	0.98	3,812,821	18.00%
1999	8,376,362	1.15	5,298,855	21.04
2000	6,589,960	0.78	5,837,720	19.37
2001	9,429,798	0.98	10,749,362	31.98
2002	10,343,213	0.96	9,254,524	23.27
2003	8,630,716	0.73	12,412,212	27.30
2004	7,916,040	0.60	11,485,910	22.93

\* Trigger Rate indicates the loan balances defaulted during a federal fiscal year divided by the loan balances in repayment at the beginning of such fiscal year. Under the Higher Education Act, as currently in effect, if a Guaranty Agency’s Trigger Rate exceeds 5% then the applicable percentage at which the Secretary reinsures loans guaranteed by that Guaranty Agency begins to decline below the otherwise applicable level.

If a payment on a Guaranteed Loan is received after reimbursement by the Secretary, the Secretary is entitled to receive an equitable share of the payment. An equitable share is deemed to be the balance remaining after the Authority deducts an amount equal to (i) the complement of the reimbursement percentage in effect at the time of reimbursement and (ii) certain administrative costs, to the extent such costs do not exceed 24% of the borrower’s payment. Under this formula, the Authority retains 24% of the borrower’s payment and remits the balance to the Secretary. *See EXHIBIT I – “SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM.”*

### **Federal Student Loan Reserve Fund**

The 1998 reauthorization of the Higher Education Act required each guaranty agency to establish a Federal Student Loan Reserve Fund (the “Federal Fund”) into which all federal reserves are to be deposited and, subject to some transitional exceptions, such amounts deposited in the Federal Fund can only be used to pay lender claims on defaulted loans and to disburse default aversion fees to an agency operating fund (“Agency Operating Fund”). All loan processing and issuance fees, account maintenance fees and default aversion fees paid by the Secretary as well as the unreinsured portion of default collections (after payment of the Secretary’s equitable share and excluding required deposits in the Federal Fund) are required to be deposited in the Agency Operating Fund. Except for funds transferred from the Federal Fund, the Agency Operating Fund is considered to be the property of the respective guaranty agency. As of March 31, 2005, the balance in the Authority’s Agency Operating Fund was \$24,211,092.

The fund that the Authority established pursuant to the Act that satisfies such requirement is also referred to in the Act as the “State Education Assistance Authority Loan Guarantee Reserve Fund”, which may be



used by the Authority to remedy defaults on student or parent loans to the extent such defaulted loans are not covered by an existing or future program of federal insurance or reinsurance. Sources of funds for the Federal Fund include premiums, if any, received by the Authority for guaranteeing student or parent loans and all moneys made available to the Authority for the guaranteeing of Guaranteed Loans, including federal funds made available for such purpose. As of March 31, 2005, the balance in the Federal Fund established by the Authority was \$7,893,830.

The Authority has not charged guaranty premiums for loans guaranteed since March 1, 1999; however, the Authority has reserved the right to reinstate such charges at such times and in such lawful amounts as it deems appropriate. Moneys in the Federal Fund may not be pledged to the repayment of the Authority's revenue bonds. The liability of the Authority to guarantee student and parent loans does not constitute a pledge of the full faith and credit of the State of South Carolina, but is payable solely from moneys in the Federal Fund.

*See also the discussion of the Federal Student Loan Reserve Fund in EXHIBIT I – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM –GUARANTEE AND REINSURANCE FOR FFELP LOANS."*

### **Recall of Guaranty Agency Reserves**

A recall of guaranty agency reserves was enacted by the Balanced Budget Act of 1997 (the "1997 Budget Act"). The Authority has satisfied its required share of recalls under the 1997 Budget Act. Additional reserve recalls were enacted by Congress as a part of the 1998 reauthorization of the Higher Education Act, which requires the Secretary to recall additional guaranty agency reserves in each of federal fiscal years 2006 and 2007. The Authority's required share of recall is \$[574,141.50] in each of such years.

A guaranty agency's reserve ratio is determined by dividing its Federal Fund balance by the original principal amount of outstanding loans it has agreed to guarantee. The following table sets forth the Authority's reserve ratio over the past five (5) federal fiscal years:

Federal Fiscal Year Ended September 30	Original Principal Amount of Outstanding Loans	Federal Fund Balance	Reserve Ratio
1999	\$1,445,824,569	\$18,906,258	1.31%
2000	1,584,662,500	16,822,492	1.06%
2001	1,719,140,374	15,629,506	0.91%
2002	1,894,113,342	12,434,807	0.66%
2003	2,110,225,270	10,889,282	0.52%
2004	2,388,747,296	8,239,260	0.34%

*See also the discussion of the amendments to the Higher Education Act related to Guaranty Agency Reserves in EXHIBIT I – "SUMMARY OF CERTAIN PROVISIONS OF THE FEDERAL FAMILY EDUCATION LOAN PROGRAM."*

### **NO PRIOR DEFAULTS**

The Corporation has not previously experienced any defaults with respect to the payment of principal of or interest on any of its bonds, notes or lines of credit. The Corporation has heretofore borrowed money from the Authority and other lenders under various loan arrangements but has not previously experienced any defaults with respect to the payment of such loans.

## SECONDARY MARKET DISCLOSURE

In the 2005 Series Resolution, the Corporation has agreed to provide such continuing, secondary market disclosures and confirmations as are described by the Rule 15c2-12 (the “Rule”) under the Securities Exchange Act (the Corporation’s “Continuing Disclosure Undertaking”). In the event of a failure of the Corporation to comply with its Continuing Disclosure Undertaking, any Bondholder or Beneficial Owner of the Bonds may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the Corporation to comply with its continuing disclosure obligations under the 2005 Series Resolution. However, a default under the Continuing Disclosure Undertaking shall not be deemed a default under the 2005 Bonds, and the sole remedy under the 2005 Series Resolution in the event of any failure of the Corporation to comply with the Continuing Disclosure Undertaking is an action to compel performance. The Corporation’s continuing obligation to provide annual financial information and notices of certain material events will terminate with respect to the 2005 Bonds when such Bonds are no longer Outstanding.

Pursuant to the 2005 Series Resolution, the Corporation has specifically undertaken, for the benefit of the Beneficial Owners of the 2005 Bonds, to provide:

- (a) by not later than seven (7) months after the end of each Fiscal Year of the Corporation, to each nationally recognized municipal securities information repository (“NRMSIR”) and to the state information depository for the State (“SID”), if any, audited financial statements of the Corporation for such Fiscal Year, if available, prepared in accordance with generally accepted accounting principles (or, if such audited financial statements of the Corporation are not available by seven (7) months from the end of such Fiscal Year, unaudited financial statements of the Corporation for such Fiscal Year to be replaced subsequently by audited financial statements of the Corporation delivered within fifteen (15) days after such audited financial statements become available for distribution);
- (b) by not later than seven (7) months after the end of each Fiscal Year of the Corporation, to each NRMSIR and to the SID, if any, the financial and statistical data as of a date not earlier than the end of the preceding Fiscal Year for the type of information included under the heading “THE PLEDGED ASSETS” in the final Offering Memorandum related to such 2005 Bonds;
- (c) in a timely manner, to each NRMSIR or to the Municipal Securities Rulemaking Board (“MSRB”), and to the SID, if any, notice of any of the events set forth in subsection (b)(5)(i)(C) of the Rule (as such Rule exists on the date of the final Offering Memorandum) with respect to the 2005 Bonds, if material (See description of “material events” below); and,
- (d) in a timely manner, to each NRMSIR or to the MSRB, and to the SID, if any, notice of a failure of the Corporation to provide required annual financial information described in clause (a) or (b) above on or before the date specified.

The “material events” referred to in clause (c) above are, as set forth in the Rule:

- principal and interest payment delinquencies;
- non-payment related defaults;
- unscheduled draws on debt service reserves below the Debt Service Reserve Requirement reflecting financial difficulties;
- unscheduled draws on credit enhancements reflecting financial difficulties;
- substitution of credit or liquidity providers, or their failure to perform;

- adverse tax opinions or events affecting the tax-exempt status of the security;
- modifications to rights of security holders;
- redemption of bonds or notes;
- defeasances;
- release, substitution, or sale of property securing repayment of the securities; and
- rating changes.

Failure of the Corporation to comply with its Continuing Disclosure Undertaking will not constitute an Event of Default with respect to the 2005 Bonds and will not result in any acceleration of payment of the 2005 Bonds.

The Corporation has reserved the right to modify from time to time the information to be provided to the extent necessary or appropriate in the judgment of the Corporation, provided, that:

- (1) any such modification may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the Corporation;
- (2) the information to be provided, as modified, would have complied with the requirements of the Rule (as such Rule exists on the date of the final Offering Memorandum), after taking into account any amendments or interpretations of the Rule, as well as any changes in circumstances; and
- (3) any such modification does not materially impair the interests of the Beneficial Owners, as determined either by parties unaffiliated with the Corporation, or by the approving vote of the registered owners of a majority in principal amount of the 2005 Bonds pursuant to the 2005 Series Resolution at the time of the amendment.

The above described Continuing Disclosure Undertaking of the Corporation will terminate upon payment of, or the making of provision for, the payment in full of the principal of and interest on the 2005 Bonds.

The Corporation may meet the continuing disclosure filing requirements described above either by providing the required information directly to the NRMSIRs or SID, if any, or, to the extent permitted by the United States Securities and Exchange Commission, by providing such information to the Municipal Advisory Council of Texas as provided at [www.disclosureusa.org](http://www.disclosureusa.org) for subsequent transmission to the NRMSIRs and SID, if any, without providing such information directly to the NRMSIRs or SID, if any.

Beginning at such time as the 2005 Series Bonds become listed on the Irish Stock Exchange (if such listing occurs), and continuing for the duration of such listing, the Corporation undertakes, for the benefit of the Beneficial Owners of the 2005 Series Bonds, to abide by the requirements set forth in Chapter 7 of the Irish Stock Exchange Listing and Admission for Trading – Guidelines for Asset-Backed Securities (2005), as the same or other applicable requirements may be in effect from time to time.

## **ERISA AND OTHER CODE CONSIDERATIONS**

The Employee Retirement Income Security Act of 1974, as amended ("ERISA") and/or certain overlapping provisions of the Code apply to certain pension plans, profit-sharing plans, stock bonus plans, annuity plans, individual retirement accounts, individual retirement annuities, welfare benefit plans and medical savings accounts (collectively, "Plans"). ERISA and certain provisions of the Code prohibit and/or tax certain transactions ("prohibited transactions") directly or indirectly between certain Plans and certain parties-in-interest and disqualified persons, as defined in ERISA and the Code, respectively. Each potential purchaser of 2005 Bonds which is, or is acting

on behalf of, a Plan should consult its tax and/or legal advisors as to whether the purchase, holding or sale of 2005 Bonds is or might constitute a "prohibited transaction" under ERISA or the Code. In addition, each potential purchaser of 2005 Bonds which intends or may intend to sell 2005 Bonds to a Plan should also consult its tax and/or legal advisors as to whether it is a "party-in-interest" under ERISA or a "disqualified person" under the Code and whether it may be subject to the civil penalties imposed by §501(i) of ERISA, other adverse consequences under ERISA or the taxes imposed by §4975(a) and (b) of the Code as a result of such sale. Subject to the provisions described herein to each specific Plan's organizational documentation and investment policies and qualifications, and other legal provisions and otherwise, the 2005 Bonds may be purchased by Plans.

Neither the Corporation, Bond Counsel, the Underwriter, nor their respective officers, agents or attorneys expresses any opinion or makes any representation as to whether any purchase, holding or sale of the 2005 Bonds is or is not a prohibited transaction under ERISA or the Code or whether such a purchase, holding or sale would be subject to the civil penalties imposed by §502(i) of ERISA, other adverse consequences under ERISA or the taxes imposed by §4975(a) or (b) of the Code. Prior to any purchase, holding or sale of the 2005 Bonds, potential purchasers and potential sellers of the 2005 Bonds should consult their respective tax and/or legal advisors with respect to such matters.

**EACH PURCHASER OF 2005 BONDS OR AN INTEREST IN 2005 BONDS WILL BE DEEMED TO HAVE REPRESENTED THAT SUCH PURCHASE IS NOT A PROHIBITED TRANSACTION UNDER ERISA OR THE OVERLAPPING PROVISIONS OF THE CODE AND THAT SUCH 2005 BONDS OR SUCH INTEREST IN 2005 BONDS IS AN ELIGIBLE INVESTMENT FOR THE PLAN.**

## **TAX MATTERS**

### **Legal Opinion**

In the opinion of McNair Law Firm, P.A., Bond Counsel, interest on the 2005 Bonds will not be excluded from the gross income of the owners thereof for either federal or State of South Carolina income tax purposes.

### **Taxation of Stated Interest**

If the Beneficial Owner is a U.S. holder, such owner generally will be required to include in gross income, as ordinary interest income, the stated interest on the 2005 Bonds at the time the interest accrues or is received, in accordance with the Beneficial Owner's regular method of accounting for U.S. federal income tax purposes.

### **Sale, Exchange or Retirement of the 2005 Bonds**

A U.S. Beneficial Owner will generally recognize the sale, exchange, redemption, retirement or other taxable disposition of a 2005 Bond in an amount equal to the difference between the amount of cash and the fair market value of any property received (excluding any amount received in respect of accrued stated interest, which will be recognized as ordinary interest income to the extent the holder has not previously included the accrued interest in income) and the Beneficial Owner's adjusted tax basis in the 2005 Bond. The U.S. Beneficial Owner's tax basis in a 2005 Bond generally will equal the amount the Beneficial Owner paid for the 2005 Bond reduced by any payments on the 2005 Bond that are not payments of stated interest. Gain or loss recognized on the sale, exchange, retirement or other taxable disposition of a 2005 Bond generally will be capital gain or loss and will be long-term capital gain or loss if the Beneficial Owner held the 2005 Bond for more than one year. Long-term capital gains of individuals, estates and trusts generally are taxed at lower rates than items of ordinary income. The deductibility of capital losses is subject to various limitations.

### **Information Reporting and Backup Withholding**

Information reporting will apply to payments of principal and interest made by the Corporation on, or the proceeds of the sale or other disposition of, the 2005 Bonds to certain non-corporate U.S. holders, and backup withholding may apply unless the recipient of such payment provides the appropriate intermediary with a

taxpayer identification number, certified under penalties of perjury (as well as certain other information), or otherwise establishes an exemption from backup withholding. Any amount withheld under backup withholding rules is allowable as a credit against the U.S. Beneficial Owner's U.S. federal income tax liability, if any, and a refund may be obtained if the amounts withheld exceed the U.S. Beneficial Owner's actual U.S. federal income tax liability and the U.S. Beneficial Owner provides the required information or appropriate claim form to the IRS.

## **Tax Considerations for Non-U.S. Beneficial Owners**

***Taxation of Interest.*** Interest on the 2005 Bonds may also be taxable to non-U.S. Beneficial Owners to the extent described below.

***Withholding on Interest and Portfolio Interest Exemption.*** If a Beneficial Owner is a non-U.S. holder, payments of principal and interest on the 2005 Bonds will generally be exempt from withholding of U.S. federal income tax under the "portfolio interest" exemption if the Beneficial Owner properly certifies as to such Beneficial Owner's foreign status, as described below, and:

- the Beneficial Owner does not own, actually or constructively, 10% or more of the capital or profits interests of the Corporation;
- the Beneficial Owner is not a "controlled foreign corporation" that is related to the Corporation; and
- the Beneficial Owner is not a bank that has acquired the 2005 Bonds in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business.

The portfolio interest exemption and several of the special rules for non-U.S. holders described herein generally apply only if the Beneficial Owner appropriately certifies as to such holder's foreign status. A Beneficial Owner generally can meet this certification requirement by providing a properly executed Form W-8BEN or appropriate substitute form to the Corporation or the Paying Agent. If the Beneficial Owner holds the 2005 Bonds through a financial institution or other agent acting on the Beneficial Owner's behalf, the Beneficial Owner may be required to provide appropriate certifications to the agent. The agent will then generally be required to provide appropriate certifications to the Corporation or the Paying Agent, either directly or through other intermediaries. Special rules apply to foreign partnerships, estates and trusts, and in certain circumstances certifications as to the foreign status of partners, trust owners, or beneficiaries may have to be provided to the Corporation or the Paying Agent. In addition, special rules apply to qualified intermediaries that enter into withholding agreements with the IRS, and such intermediaries generally are not required to forward any certification forms received from non-U.S. holders.

If a Beneficial Owner cannot satisfy the requirements described above, payments of interest made to such Beneficial Owner will be subject to the 30% U.S. federal withholding tax, unless such Beneficial Owner provides the Corporation with a properly executed IRS Form W-8BEN (or successor form) claiming an exemption from (or a reduction of) withholding under the benefit of a tax treaty, or the payments of principal and interest are effectively connected with such Beneficial Owner's conduct of a trade or business in the United States and the Beneficial Owner meets the certification requirements described below. *See "Income or Gain Effectively Connected with a Trade or Business."*

***Sale or Other Taxable Disposition of Bonds.*** A Beneficial Owner generally will not be subject to U.S. federal income tax on any gain realized on the sale, exchange, retirement or other taxable disposition of a 2005 Bond unless:

- the gain is effectively connected with the conduct by such Beneficial Owner of a U.S. trade or business;
- the Beneficial Owner is an individual who has been present in the United States for 183 days or more of the taxable year of disposition and certain other requirements are met; or

- the Beneficial Owner was a citizen or resident of the United States and subject to special rules that apply to certain expatriates.

*Income or Gain Effectively Connected with a U.S. Trade or Business.* The preceding discussion of the tax consequences of the purchase, ownership and disposition of the 2005 Bonds by a Beneficial Owner generally assumes that such Beneficial Owner is not engaged in a U.S. trade or business. If any interest on the 2005 Bonds or gain from the sale, exchange, retirement, redemption, or other taxable disposition of the 2005 Bonds is effectively connected with a U.S. trade or business conducted by the Beneficial Owner, then the income or gain will be subject to U.S. federal income tax at regular graduated income tax rates, but will not be subject to withholding tax if certain certification requirements are satisfied. A Beneficial Owner can generally meet the certification requirements by providing a properly executed Form W-8ECI or appropriate substitute form to the Corporation or the Paying Agent. If the Beneficial Owner is eligible for the benefits of a tax treaty between the United States and such Beneficial Owner's country of residence, any "effectively connected" income or gain will generally be subject to U.S. federal tax only if it is also attributable to a permanent establishment maintained by such Beneficial Owner in the United States. If the Beneficial Owner is a corporation, that portion of the Beneficial Owner's earnings and profits that are effectively connected with such Beneficial Owner's U.S. trade or business also may be subject to a "branch profits tax" at a 30% rate, although an applicable tax treaty may provide for a lower rate.

*Information Reporting and Backup Withholding.* In general, information reporting and backup withholding will apply to payment of interest on the 2005 Bonds unless the Beneficial Owner appropriately certifies as to such Beneficial Owner's foreign status or otherwise establishes an exemption.

Payment of the proceeds of a sale of a 2005 Bond effected by a U.S. or foreign broker will be subject to information reporting requirements and backup withholding unless the Beneficial Owner properly certifies under penalties of perjury as to such Beneficial Owner's foreign status and certain other conditions are met, or the Beneficial Owner otherwise establishes an exemption. Information reporting requirements and backup withholding generally will not apply to any payment of the proceeds of a sale of a 2005 Bond effected outside the United States by a foreign office of a broker. However, unless such a broker has documentary evidence in its records that such Beneficial Owner is a non-U.S. holder and certain other conditions are met, or the Beneficial Owner otherwise establishes an exemption, information reporting will apply to a payment of the proceeds of the sale of a 2005 Bond effected outside the United States by such a broker if it:

- is a United States person;
- derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States;
- is a controlled foreign corporation for U.S. federal income tax purposes;
- is a foreign partnership that, at any time during the taxable year, has 50% or more of its income or capital interests owned by U.S. persons or is engaged in the conduct of a U.S. trade or business; or
- is a U.S. branch of a foreign bank or insurance company.

Any amount withheld under the backup withholding rules may be credited against the Beneficial Owner's U.S. federal income tax liability and any excess may be refundable if the proper information is provided to the IRS.

THE PRECEDING DISCUSSION OF CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATION IS FOR GENERAL INFORMATION ONLY AND IS NOT TAX ADVICE, NOR DOES IT PURPORT TO CONTAIN OR DISCUSS ALL OF THE TAX MATTERS THAT SHOULD BE CONSIDERED BY A PROSPECTIVE INVESTOR. EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR REGARDING THE PARTICULAR FEDERAL, STATE, LOCAL OR FOREIGN TAX CONSEQUENCES OF PURCHASING, HOLDING AND DISPOSING OF THE 2005 BONDS, INCLUDING THE CONSEQUENCES OF ANY PROPOSED CHANGES IN APPLICABLE LAWS.

## **ABSENCE OF MATERIAL LITIGATION**

There is no controversy or litigation of any nature now pending or threatened or, to the knowledge or information of the Corporation, any basis therefor, to restrain or enjoin the issuance, sale, execution or delivery of the 2005 Bonds, or in any way contesting or affecting the validity of the 2005 Bonds, any proceedings of the Corporation taken with respect to the issuance or sale thereof, the pledge or application of any moneys or security provided for the payment of the 2005 Bonds or the due existence or powers of the Corporation or the Authority.

## **APPROVAL OF LEGALITY**

The legality of the authorization, issuance and sale of the 2005 Bonds is subject to the approving legal opinion of Bond Counsel, McNair Law Firm, P.A., Charleston, South Carolina. Certain legal matters will be passed on for the Corporation by McNair Law Firm, P.A., Charleston, South Carolina and for the Underwriters by their counsel, Williams Mullen, Washington, DC. The final approving opinion of Bond Counsel is to accompany delivery of the 2005 Bonds substantially in the form attached to this Offering Memorandum as *EXHIBIT V*.

## **UNDERWRITING**

The 2005 Bonds are to be purchased by RBC Dain Rauscher Inc., A.G. Edwards & Sons, Inc., BB&T Capital Markets, a division of Scott and Stringfellow, Inc., and Friedman, Billings, Ramsey & Co., Inc. (the "Underwriters") pursuant to the terms and conditions of a Bond Purchase Agreement to be entered into by and between the Corporation and the Underwriters on or before July [ ], 2005, subject to certain conditions, at an aggregate purchase price equal to \$[ ], which reflects an underwriters' discount of \$[ ]. The Bond Purchase Agreement provides that the Underwriters shall not be obligated to purchase any 2005 Bonds unless all such Bonds are available for purchase. The initial public offering price may be changed by the Underwriters from time to time without notice. Although there can be no assurance that any market for the 2005 Bonds will commence or be maintained, the Underwriters expect to make a market in the 2005 Bonds for a limited period of time after the initial public offering.

## **RATINGS**

It is a condition precedent to the issuance of the 2005 Bonds that the Corporation obtain a confirmation of ratings on the Prior Bonds. The Corporation has applied for ratings of the 2005 Bonds by Fitch Ratings ("Fitch"), Standard & Poor's Rating Services, a division of the McGraw-Hill Companies, Inc. ("Standard & Poor's") and Moody's Investors Service, Inc. ("Moody's"). While the Corporation expects to receive rating confirmations with respect to the Prior Bonds from the Ratings Agencies, and that the 2005 Bonds will be rated AAA by Fitch and Standard & Poor's and Aaa by Moody's, there can be no assurance that such expectations will be realized. Such ratings reflect only the respective views of Fitch, Standard & Poor's and Moody's at the time such ratings are assigned. An explanation of any such respective ratings can only be obtained from Fitch, Standard & Poor's and Moody's as appropriate. There can be no assurance that such ratings will continue for any given period of time or that any or all will not be revised downward, limited or withdrawn entirely. Any such downward revision, limitation or withdrawal may adversely affect the market price of the 2005 Bonds.

## MISCELLANEOUS

Any statements in this Offering Memorandum involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Offering Memorandum is not to be construed as a contract or agreement between the Corporation and the purchasers or holders of any of the 2005 Bonds.

The Resolution provides that all covenants, stipulations, promises, agreements and obligations of the Corporation contained in the Resolution shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Corporation and not of any officer, director or employee of the Corporation in such person's individual capacity, and no recourse shall be had for the payment of the principal of or interest on the 2005 Bonds or for any claim based thereon or on the Resolution against any officer, director or employee of the Corporation or against any person executing the 2005 Bonds.

Dated this [ ] th day of July, 2005.

### **SOUTH CAROLINA STUDENT LOAN CORPORATION**

By: /s/ \_\_\_\_\_  
*Authorized Officer*



**EXHIBIT I**

**SUMMARY OF CERTAIN PROVISIONS OF  
THE FEDERAL FAMILY EDUCATION LOAN PROGRAM**

SUMMARY OF CERTAIN PROVISIONS OF  
THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

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## Introduction

### Generally

The Federal Family Education Loan Program ("**FFELP**"), formerly known as the Guaranteed Student Loan Program, is part of a number of federal education programs contained in the Higher Education Act of 1965, as amended (the "**Higher Education Act**") and was originally enacted by the U.S. Congress and signed into law as Public Law 89-329. FFELP provisions are presently contained in Title IV, Part B of the Higher Education Act and are codified at 20 United States Code, Sections 1071 *et seq.*

FFELP currently includes:

- the Federal Stafford Loan Program,
- the Federal Supplemental Loans for Students (SLS) Program, (repealed in 1994)
- the Federal Parent Loans for Undergraduate Students (PLUS) Program, and
- the Federal Consolidation Loan Program.

FFELP attempts to assure access of students and their parents to loans for postsecondary educational endeavors by providing lenders with certain federal incentives to make what otherwise would be unsecured higher risk loans. Toward that end, qualifying loans under FFELP are either (i) guaranteed by a state guaranty agency or authorized private guaranty agency and reinsured by the U.S. Government or (ii) insured directly by the U.S. Secretary of Education (the "**Secretary**"). One type of FFELP loan made to need-qualified students is subject to special treatment under which the Secretary pays interest on the loan while the student is in school and prior to the time the student is scheduled to begin loan repayment. Several types of FFELP loans are subject to so-called "Special Allowance Payments" where the Secretary makes periodic payments to loan holders to make up the difference between the interest rate paid by the borrower and the calculated market interest rates.

A new Federal Direct Student Loan Program ("**FDSLP**") was created by the Student Loan Reform Act of 1993 (after a previously authorized demonstration program) and became operational for the 1994-1995 academic year. Unlike the FFELP Program, which relies on a national network of private for-profit and nonprofit lenders as well as state and local governmental and quasi-governmental lenders for the origination and funding of loans, the FDSLP utilizes direct federal funding of student loans through participating educational institutions.

Currently, interest rate information for FFELP loans can be found in §427A of the Higher Education Act (20 U.S.C. 1077a); insurance and guarantee/reinsurance information for FFELP loans can be found in §§429 through 432 of the Higher Education Act (20 U.S.C. 1079 through 1082); and, information on student borrower and parent borrower eligibility for FFELP loans can currently be found in §§427 and 428B of the Higher Education Act (20 U.S.C. 1077 and 1078-2).

The following summary of certain provisions of FFELP is not intended to be complete and is qualified in its entirety by reference to the complete provisions of the Higher Education Act and the regulations thereunder. This summary is intended as a general description of FFELP and speaks only as of the date on the front cover of this Offering Memorandum. Neither the Corporation, the Underwriters, nor their respective counsel are under any obligation to update or supplement the information herein contained after the date hereof.

### Legislative and Administrative Matters

Since original enactment, both the Higher Education Act and the regulations promulgated thereunder have been the subject of extensive amendments, and there can be no assurance that further amendments or modifications will not adversely impact the programs described below and FFELP loans made thereunder. The Higher Education Act is also subject to periodic reauthorization. There have been two recent developments that deserve specific

mention, including one reauthorization in 1998 outside of the normal periodic reauthorization process in order to achieve savings in the federal budget.

The Higher Education Act was most recently reauthorized by the enactment of the Higher Education Amendments of 1998 (Public Law 105-244), signed into law on October 7, 1998. In 2004, Congress passed another extension of the Higher Education Amendments of 1998 which extended the principal provisions of FFELP to September 30, 2005 (or, in the case of borrowers who have received loans prior to that date, to September 30, 2008), except that the authority to make Consolidation Loans expires during calendar year 2005.

No representation is made as to the effect, if any, of future Federal budgetary appropriation, legislation or regulatory actions upon expenditures by the United States Department of Education or upon the financial condition of the Corporation.

Even more recently, on February 8, 2002 President Bush signed S.1762, which amended the Higher Education Act again. The law establishes a fixed rate of interest for new loans made on or after July 1, 2006, of 6.8% for Stafford Loans and 7.9% for PLUS loans. For Consolidation Loans, the rate will become the lesser of (i) the weighted average of the interest rates on the loans consolidated, or (ii) 8.25 percent. The law also extended the current borrower interest rate provisions from July 1, 2003, to July 1, 2006, and made permanent the formula for calculating Special Allowance Payments with respect to the three (3) month commercial paper rate.

### **THE FEDERAL STAFFORD LOAN PROGRAM**

**Generally.** FFELP currently provides for (a) a subsidized Stafford Loan Program, which includes (i) federal insurance or separate guarantee and federal reinsurance (described below), (ii) interest subsidy payments ("*Interest Subsidy Payments*") to eligible lenders for certain eligible loans, and (iii) in some circumstances, special allowance payments ("*Special Allowance Payments*") representing an additional subsidy paid by the Secretary to holders of certain eligible loans; and (b) an unsubsidized Stafford Loan Program, which includes federal insurance or separate guarantee and federal reinsurance and Special Allowance Payments in some circumstances.

Both subsidized and unsubsidized Stafford Loans are eligible for federal insurance or separate guarantee and federal reinsurance if made to eligible students (see below). In connection with eligible Stafford Loans, there are limits as to the maximum amount which may be borrowed for an academic year and in the aggregate for both undergraduate and graduate/professional study. Both aggregate limitations exclude loans made under the PLUS Program. The Secretary may authorize higher limits to accommodate students undertaking specialized training requiring exceptionally high costs of education. Subject to these limits, Stafford Loans are available to eligible students in amounts not exceeding their unmet need for financing determined in accordance with applicable FFELP need analysis. As used in this summary, a "new borrower" is an individual who, at the time of determination, has no outstanding principal or interest due on prior loans under FFELP.

**Eligible Student.** Generally, a loan may be made only to a United States citizen or national or otherwise eligible individual under federal regulations who:

(a) has been accepted for enrollment or is enrolled and is maintaining satisfactory progress at an eligible institution,

(b) is carrying at least one-half of the normal full-time academic workload for the course of study the student is pursuing, as determined by such institution,

(c) has agreed to notify promptly the holder of the loan of any address change,

(d) meets the applicable "need" requirements,

(e) if he or she is an undergraduate enrolled in an institution participating in the Pell Grant Program, then his or her eligibility or ineligibility for the Pell Grant Program has been determined,

(f) is not in default on any other federal education loan nor owes an overpayment on any other Title IV program, and

(g) is in compliance with selective service requirements.

Eligible institutions include higher educational institutions and vocational schools that comply with certain federal regulations.

**Promissory Notes.** Each loan, whether subsidized or unsubsidized, is to be evidenced by an unsecured unendorsed promissory note. Currently, all such loans are in the form of a "Master Promissory Note." A Master Promissory Note is designed to be used as both a single year and as a multi-year note. Under the Master Promissory Note process, most borrowers will sign a promissory note once, at the time they first borrow. They may obtain additional loans, based on that same note, during the same year or in subsequent years. Generally, a lender's ability to make subsequent loans to a borrower, based on the Master Promissory Note, expires upon the earliest of (i) twelve (12) months after the original Master Promissory Note is signed if no disbursements have been made using that Master Promissory Note, (ii) ten (10) years from the date the Master Promissory Note is signed, or (iii) the date the lender receives written notice from the borrower that the Master Promissory Note may no longer be used as the basis for making additional loans.

**Maximum Loan Amounts.** Currently, the annual Stafford Loan limit for an academic year is as follows:

- \$2,625 for the first year of undergraduate study (except that lower limits apply to certain short-term courses of study),
- \$3,500 for the second year of undergraduate study,
- up to \$5,500 per year for the remainder of undergraduate study, and
- \$8,500 per year for graduate and professional students.

The aggregate limit on total Stafford Loans is generally \$23,000 for undergraduates (excluding PLUS and SLS loans) and \$65,500 for graduate and professional students. These loan limits may be increased substantially in some circumstances. See "**THE FEDERAL SLS AND UNSUBSIDIZED STAFFORD LOAN PROGRAMS – Loan Amounts.**"

**Applicable Interest Rates.** The interest rates applicable to Stafford Loans vary significantly depending, among other things, on the time period during which the loan or its first disbursement was made and whether the loan was to a new borrower or an existing borrower.

*Historical Fixed Rates.* Prior to October of 1992, all Stafford Loans to new borrowers bore interest at fixed rates which varied depending on the period of instruction the loan was to cover. For example, Stafford Loans made prior to January 1, 1981 (and subsequent loans to the same borrowers) bore interest at a fixed rate not in excess of 7% per annum. On and after January 1, 1981, the fixed interest rate for new borrowers was 9% per annum unless the Secretary of the Treasury determined that the average of the bond equivalent rates of 91-day Treasury Bills auctioned for any twelve (12) month period beginning on or after January 1, 1981, was equal to or less than 9% in which case the fixed interest rate was 8% for any period of enrollment beginning on or after the date which was three (3) months after such determination. For loans first disbursed to new borrowers on or after July 1, 1988, the fixed interest rate was 8% from the date of loan disbursement through the fourth year of repayment and then converted in the fifth year of repayment to a fixed rate of 10% for the remainder of the repayment period.

*Required Conversion Of Fixed Rate Loans To Annual Variable Rates.* Pursuant to the Higher Education Technical Amendments of 1993, which was signed into law on December 20, 1993, lenders were required to convert all fixed rate loans disbursed on or after July 23, 1993, to an annual variable rate by January 1, 1995. The annual variable rate to which such loans were converted is adjusted each July 1 to a rate equal to the bond equivalent rate of the 91-day Treasury Bill, determined at the final auction held prior to the immediately preceding

June 1, plus a spread of 3.25% for loans first disbursed to new borrowers on or after July 1, 1988, for which the otherwise applicable fixed interest rate was 10%; or, in the case of a loan made on or after October 1, 1992, to a borrower with outstanding loans under FFELP, the bond equivalent rate of the 91-day Treasury Bill, determined as described above, plus 3.10%.

***The Current Annual Variable Rates.*** Loans first disbursed to new borrowers on or after October 1, 1992, bear interest at an annual variable rate which is reset each July 1 and which is equal to the bond equivalent rate of the 91-day Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus a spread of 3.10% with a cap on the rate of 9%. For loans first disbursed (whether to a new or existing borrower) on or after July 1, 1994, the cap on the rate is reduced to 8.25%. For loans first disbursed on or after July 1, 1995, the permitted spread above the bond equivalent rate of the 91-day Treasury Bill is reduced to 2.50% during the period of the loan prior to the commencement of and during the deferment of repayment and the rate is capped at 8.25%. For loans first disbursed on or after July 1, 1998, and before July 1, 2006, the permitted spread is 1.7% during the in-school period, the grace period and certain deferment periods and 2.3% during the repayment period and any periods of forbearance, in each case with the maximum rate capped at 8.25%. FFELP specifically provides that the foregoing interest rates are maximum rates only and that lenders may charge interest rates that are lower than the applicable FFELP rates.

**Interest Subsidy Payments.** Interest Subsidy Payments are interest payments made by the Secretary on behalf of certain student borrowers during the period prior to the commencement of the obligation to begin repayment and also during deferment of repayment of their subsidized Stafford Loans. With respect to loans for which the eligible institution has completed its portion of the loan application after September 30, 1981, Interest Subsidy Payments are available only if certain income and need criteria are met by the borrower. Factors in this need analysis include the student's estimated cost of attendance, estimated financial assistance and expected family contribution. Interest Subsidy Payments will be paid:

- (a) during a period which the borrower is enrolled at least half-time in an eligible institution,
- (b) during a six (6) month grace period pending commencement of repayment of the loans,
- (c) during certain deferment periods, and
- (d) in the case of loans initially disbursed prior to October 1, 1981, during a six (6) month grace period following any authorized deferment period before repayment is required to resume.

The Secretary makes Interest Subsidy Payments quarterly on behalf of the borrower to the holder of the loan in an amount equal to the interest accruing on the unpaid principal amount of the loan during the applicable period. The Higher Education Act provides that the holder of a loan meeting the specified criteria has a contractual right, as against the United States, to receive Interest Subsidy Payments from the Secretary. Receipt of Interest Subsidy Payments is conditioned on compliance with the Higher Education Act, including continued eligibility of the loan for insurance or guarantee/reinsurance benefits. Such eligibility may be lost if the requirements of the Higher Education Act or applicable guarantee agreements relating to the servicing and collection of the loans are not met. If Interest Subsidy Payments have not been paid within thirty (30) days after the Secretary receives an accurate, timely, and complete request therefor, the Secretary must pay daily interest on the amounts due beginning on the 31<sup>st</sup> day at a rate equal to the sum of the daily equivalent loan interest rate and the daily equivalent Special Allowance rate, both as applicable to the affected loans.

FFELP limits the Secretary's authority to make Interest Subsidy Payments to the period ending at the close of business on September 30, 2004 for eligible loans to new borrowers and September 30, 2008 for eligible loans to existing borrowers.

**Grace Period, Deferment Periods, Forbearance.** Repayment of principal of a FFELP loan (other than a PLUS Loan) must generally commence following a period of (a) not less than nine (9) months or more than twelve (12) months with respect to loans for which the applicable interest rate is 7% per annum, and (b) not more than six (6) months with respect to loans for which the applicable interest rate is other than 7% after the student borrower

ceases to pursue at least a half-time course of study (a "**Grace Period**"). However, during certain other periods and subject to certain conditions, no principal repayments need be made, including periods when the student has returned to an eligible educational institution on at least a half-time basis or is pursuing studies pursuant to an approved graduate fellowship program, or when the student is a member of the Armed Forces or a volunteer under the Peace Corps Act or the Domestic Volunteer Service Act of 1973, or when the borrower is temporarily totally disabled, or during which the borrower is unable to secure employment, or when the borrower is experiencing economic hardship (the "**Deferment Periods**"). The lender may also, and in some cases must, allow periods of forbearance during which the borrower may defer principal and/or interest payments because of temporary financial hardship. The 1992 Reauthorization Bill simplified the deferment categories for new loans and expanded the opportunities for students to obtain forbearance from lenders due to temporary financial hardship.

**Repayment.** Repayment of principal on a Stafford Loan does not commence while a student remains a qualified student in school, but generally begins on the day following the sixth (6<sup>th</sup>) month after the qualified student ceases to carry the required course load at an eligible institution. In general, each such loan must be scheduled for repayment over a period of not more than ten (10) years after the commencement of repayment (excluding any Deferment Period or Forbearance Period as defined in the Higher Education Act).

FFELP currently requires that no more than six (6) months prior to the date on which a borrower's first payment is due, the lender must offer Stafford Loan borrowers the option of repaying the loan in accordance with

(i) a standard repayment plan, with a fixed annual repayment amount paid over a fixed period of time, not to exceed ten (10) years, except that the borrower must repay annually a minimum amount equal to the lesser of \$600 or the borrower's loan balance;

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

(iii) an income-sensitive repayment plan, with income-sensitive repayment amounts paid over a fixed period of time, not to exceed ten (10) years, except that the borrower's scheduled payments cannot be less than the amount of interest due; and

(iv) for new borrowers on or after October 1, 1998, who accumulate (after such date) outstanding Stafford Loans (subsidized and unsubsidized) totaling more than \$30,000, an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period of time, not to exceed twenty-five (25) years,

except that with respect to plans described in (ii) through (iv) above, in no instance may the payment be less than the amount of interest due and payable.

If a borrower fails to select from among the offered repayment plans, the lender is required to provide the borrower with the standard repayment plan.

**Loan Forgiveness.** Section 428J of the Higher Education Act authorizes the Department of Education to repay a maximum of \$5,000 (combined total for loans obtained under both the FFELP and FDLP) of a qualified borrower's Stafford loan obligations, and Consolidation loan obligations to the extent that a Consolidation loan repaid a borrower's qualifying Stafford loan(s). No borrower may receive benefit for the same teaching service under both the Teacher Loan Forgiveness Program and subtitle D of Title I of the National and Community Service Act of 1990 (AmeriCorps). The Taxpayer-Teacher Protection Act of 2004 increased the maximum repayment to \$17,500 for certain qualified borrowers.

To be eligible for loan forgiveness under this program, a borrower must be a "new borrower" and have had no outstanding balance on a FFELP or FDLP loan on October 1, 1998, or had no outstanding balance on a FFELP or a FDLP loan on the date he or she obtained a loan after October 1, 1998, and before October 1, 2005.

## THE FEDERAL SLS AND UNSUBSIDIZED STAFFORD LOAN PROGRAMS

**History.** The 1981 amendments to the Higher Education Act included a new program to provide unsubsidized loans to graduate and professional students and independent undergraduate students similar to PLUS Loans (see "**PLUS Loan Program**" below). Loans under this new program were designated "Auxiliary Loans for Students" or "ALAS" and subsequently renamed "Supplemental Loans to Students" or "SLS" by the October 1986 amendments. The 1992 amendments to the Higher Education Act added specific provisions for an unsubsidized Stafford Loan Program for independent undergraduate students and graduate/professional students which addressed most of the same financing needs of students as were addressed by the SLS Program. Hence, the Omnibus Budget Reconciliation Act of 1993 eliminated the SLS Program as a separate program and, effective for periods of enrollment beginning on or after July 1, 1994, the SLS Program was merged into the unsubsidized Stafford Loan Program. Therefore, unsubsidized Stafford Loans made for periods of enrollment before July 1, 1994, may have benefits and conditions different from unsubsidized Stafford Loans made after that date.

**Loan Amounts.** Both the SLS and unsubsidized Stafford Loan Programs were designed to facilitate borrowing for students who do not qualify for the full subsidized Stafford Loan after application of the required need analysis methodology. Such students are entitled to borrow the difference between the unsubsidized Stafford Loan maximum and their subsidized Stafford eligibility through the new program so long as the total loan does not exceed their cost of attendance. The amount of an unsubsidized Stafford Loan is determined by subtracting from the student's estimated cost of attendance any estimated financial assistance reasonably available to such student. Annual loan limits are those applicable to subsidized Stafford Loans but are increased for independent students or students whose parents are unable to borrow under the FFELP PLUS Program or the FDSLPL PLUS Program by:

- (i) \$4,000 during the first and second years of undergraduate study,
- (ii) \$5,000 for undergraduate study after the first and second years, and
- (iii) \$10,000 for graduate or professional study.

Aggregate loan limits are generally the same as for subsidized Stafford Loans but are increased to reflect any applicable increases in annual limits for the unsubsidized Stafford Loans and do not include any capitalized interest. Aggregate limits of \$46,000 for an undergraduate and \$138,500 for a graduate student include the total of outstanding loans under the Stafford Loan Program, SLS Loan Program and loans under the FDSLPL.

**Insurance and Interest Subsidy.** The basic provisions for federal insurance and separate guarantee/federal reinsurance applicable to SLS are similar to those of unsubsidized Stafford Loans. Interest Subsidy Payments are not available for SLS and unsubsidized Stafford Loans.

### **Interest Rates.**

***Unsubsidized Stafford Loans.*** Interest rates on unsubsidized Stafford Loans are determined in the same manner as for subsidized Stafford Loans. However, interest accruing on an unsubsidized Stafford Loan while the borrower is in school or in grace or deferment is either capitalized and added to the principal amount of the loan when it enters repayment or paid monthly or quarterly by the student. Amortization of unsubsidized Stafford Loans is established by assuming an interest rate equal to the applicable rate at the time the repayment of the principal amount of the loan commences. At the option of the lender, the periodic payment amount may be adjusted annually or the period of repayment of principal may be lengthened or shortened in order to reflect adjustments in applicable interest rates.

***SLS Loans.*** Interest rates on SLS Loans are higher than those on Stafford Loans. The applicable interest rate depends upon the date of the loan and the period of enrollment for which the loan is to apply. For SLS Loans issued on or after October 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest was either 12% or 14% per annum.



An annual variable interest rate applies to SLS Loans made and disbursed on or after July 1, 1987, or those made prior to such time that are reissued at a variable rate. The applicable annual variable rate is determined on the basis of any twelve (12) month period beginning on July 1 and ending on the following June 30, and is equal to the sum of the bond equivalent rate of 52-week Treasury Bills auctioned at the final auction held prior to the June 1 immediately preceding the applicable twelve (12) month period, plus a permitted spread.

For SLS Loans made and disbursed on or after July 1, 1987, the permitted spread is 3.25% and the maximum rate is 12% per annum. For SLS Loans first disbursed on or after October 1, 1992, the permitted spread is 3.10% and the maximum rate is 11% per annum. Since the SLS Program was eliminated as a separate program in 1993, no new SLS Loans have been originated since June 30, 1994. On or after July 1, 2001, the interest rate on outstanding SLS Loans will be based on the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System, in substitution for the bond equivalent rate of auctioned 52-week Treasury Bills.

**Repayment.** See information above under "**THE FEDERAL STAFFORD LOAN PROGRAM - Repayment.**"

**Refinancing of SLS Loans.** A lender may refinance multiple outstanding SLS Loans to the same borrower under a single repayment schedule for principal and interest, with a new repayment period calculated from the date of repayment of the most recent included loan. Unless the borrower elects a variable interest rate, the interest rate of such a consolidated SLS Loan is the weighted average of the rates of all loans being refinanced.

A lender may also refinance a SLS Loan which was initially originated at a fixed rate prior to July 1, 1987, in order to permit the borrower to obtain the variable interest rate available on SLS Loans on and after July 1, 1987. If a lender is unwilling to reissue the original SLS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

A lender may not refinance SLS and PLUS Loans together to obtain a single repayment schedule.

## **THE FEDERAL PLUS LOAN PROGRAM**

**History.** Under the 1980 amendments to the Higher Education Act (which became effective, with respect to Part B of Title IV of the Higher Education Act, on January 1, 1981), the U.S. Congress established a program to provide educational loans to parents of dependent undergraduate students. Loans under this program were designated Parent Loans for Undergraduate Students or "PLUS Loans." To be eligible as PLUS borrowers, parents or a loan endorser, as applicable, cannot have an adverse credit history. The student's parents may borrow jointly or separately for the student. If they borrow separately, the loan limits on behalf of dependent students apply to the total of both loans, not to each loan individually. If the parents borrow jointly, both are liable for repayment of the loan as co-makers.

**Loan Amounts.** Originally, loans under the Federal PLUS Loan Program were limited to the lesser of \$4,000 per academic year or the estimated cost of attendance less other financial aid for which the student was eligible, with a maximum aggregate amount of \$20,000. However, for PLUS Loans for which the first disbursement is made on or after July 1, 1993, annual and aggregate loan limits have been repealed. However, a PLUS Loan may not exceed the student's estimated cost of attendance minus other available financial assistance during the period of enrollment.

**Insurance and Interest Subsidy.** The basic provisions for federal insurance and separate guarantee/federal reinsurance applicable to PLUS Loans are similar to those of unsubsidized Stafford Loans. Like unsubsidized Stafford Loans, federal Interest Subsidy Payments are not available for PLUS Loans. Special Allowance Payments, however, are made for PLUS Loans under certain limited conditions.

**Interest Rates.** Interest rates on PLUS Loans are higher than those on Stafford Loans. The applicable interest rate depends upon the date of the loan and the period of enrollment for which the loan is to apply. For

PLUS Loans issued on or after October 1, 1981, but for periods of educational enrollment beginning prior to July 1, 1987, the applicable rate of interest was either 12% or 14% per annum.

An annual variable interest rate applies to PLUS Loans made and disbursed on or after July 1, 1987. The annual variable interest rate also applies to PLUS Loans that are refinanced on or after July 1, 1987 (as discussed below). The applicable annual variable rate is determined on the basis of any twelve (12) month period beginning on July 1 and ending on the following June 30, and is equal to the sum of the bond equivalent rate of 52-week Treasury Bills auctioned at the final auction held prior to the June 1 immediately preceding the applicable twelve (12) month period, plus a permitted spread.

For PLUS Loans made and disbursed on or after July 1, 1987, the permitted spread is 3.25% and the maximum rate is 12% per annum. For PLUS Loans first disbursed on or after October 1, 1992, the permitted spread is 3.10% and the maximum rate is 10%. For PLUS Loans first disbursed on or after July 1, 1994, the permitted spread is 3.10% and the maximum rate is 9%. For PLUS Loans first disbursed on or after July 1, 1998, but before July 1, 2006, the interest rate for any twelve (12) month period beginning on July 1 and ending on June 30 will be determined at the final auction held prior to the immediately preceding June 1 and will be equal to the lesser of (i) the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to June 1 plus 3.1% or (ii) 9%. On or after July 1, 2001, the interest rate on outstanding PLUS Loans disbursed on or after July 1, 1987, but before July 1, 1998, will be based on the weekly average one-year constant maturity Treasury yield, as published by the Board of Governors of the Federal Reserve System, in substitution for the bond equivalent rate of auctioned 52-week Treasury Bills.

**Repayment.** Repayment of principal of PLUS Loans is required to commence no later than sixty (60) days after the date of the last disbursement of such loan, subject to certain deferral provisions. The deferral provisions which apply are more limited than those which apply to Stafford Loans. Interest on PLUS Loans for which principal payments are deferred may be paid monthly or quarterly if agreed by the borrower and the lender, or may be capitalized and added to the principal amount of the loan not more frequently than quarterly by the lender. PLUS Loan borrowers must be offered the same repayment options as Stafford borrowers. See "**THE FEDERAL STAFFORD LOAN PROGRAM – Repayment**" above.

**Refinancing of PLUS Loans.** A lender may refinance multiple outstanding PLUS Loans to the same borrower under a single repayment schedule for principal and interest, with a new repayment period calculated from the date of repayment of the most recent included loan. Unless the borrower elects a variable interest rate, the interest rate of such a consolidated PLUS Loan is the weighted average of the rates of all loans being refinanced.

A lender may also refinance a PLUS Loan which was initially originated at a fixed rate prior to July 1, 1987, in order to permit the borrower to obtain the variable interest rate available on PLUS Loans on and after July 1, 1987. If a lender is unwilling to reissue the original PLUS Loan, the borrower may obtain a loan from another lender for the purpose of discharging the loan and obtaining a variable interest rate.

A lender may not refinance PLUS and SLS Loans together to obtain a single repayment schedule.

## **THE FEDERAL CONSOLIDATION LOAN PROGRAM**

**History.** In 1986, the U.S. Congress established a program to provide loans to eligible borrowers for consolidating their Guaranteed Loans. Amendments to the Consolidation Loan Program were made in 1992, 1993 and 1998.

**Eligibility.** Under the Consolidation Loan Program, an eligible borrower means a borrower with outstanding FFELP indebtedness who, at the time of application, is in repayment status or in a grace period preceding repayment, or is a delinquent or defaulted borrower who will reenter repayment through loan consolidation. An eligible borrower also cannot be subject to a judgment or a wage garnishment with respect to FFELP loans. Prior to July 1, 1994, a borrower also had to have an outstanding balance of at least \$7,500 in FFELP loans to be eligible for consolidation. This \$7,500 threshold was eliminated for loans consolidated on or after July 1, 1994. A lender may make a Consolidation Loan to an eligible borrower at the request of the borrower. An

eligible borrower may also obtain a Consolidation Loan from the Secretary under the Federal Direct Student Loan Program if the borrower is unable to obtain a FFELP Consolidation Loan or is unable to obtain a FFELP Consolidation Loan having income-sensitive repayment terms acceptable to such borrower. Title IV loans (NDSL/Perkins) and loans made under Subpart I of Part A of Title VII of the Public Health Service Act may also be consolidated with FFELP Loans.

A married couple, each of whom has loans, may be treated as an individual borrower if such couple agrees to be held jointly and severally liable for the repayment of their Consolidation Loan, without regard to the amounts of the respective loan obligations that are to be consolidated and without regard to any subsequent change that may occur in such couple's marital status.

**Interest Rates.** Consolidation Loans made before July 1, 1994, bear interest at a rate equal to the weighted average of the interest rates on the loans consolidated, rounded to the nearest whole percent subject to a floor rate of 9% per annum. Consolidation Loans made on or after July 1, 1994, bear interest at the same weighted average rate but are not subject to a floor rate. However, Consolidation Loans made on or after November 13, 1997, through September 30, 1998, bear interest at the annual variable rate applicable to Stafford Loans. Consolidation Loans for which the application is received on or after October 1, 1998, bear interest at a rate equal to the lesser of (i) the weighted average interest rate of the loans consolidated, rounded up to the nearest 1/8th of a percent, and (ii) 8.25 percent. For Consolidation Loans discharging HEAL Loans for which an application was received by an "eligible lender" on or after November 13, 1997, the interest rate is based on the average of bond equivalent rates on the 91-day Treasury Bills auctioned for the quarter ending June 30 of each year plus a spread. Such rate is variable and adjusted each July 1. There is no maximum rate of interest for a HEAL Loan portion of a Consolidation Loan.

**Repayment.** For Consolidation Loans made on or after July 1, 1994, lenders are required to offer borrowers graduated or income-sensitive repayment schedules providing for repayment over ten (10) years with a minimum payment of accrued and unpaid interest. Absent some other permissible arrangement with the lender, repayment periods for Consolidation Loans may vary from up to ten (10) years to not more than thirty (30) years, depending on the sum of the balance on the Consolidation Loan and any other FFELP and education loans of the borrower, but the outstanding balance of such other FFELP and education loans counted may not exceed the balance of the Consolidation Loan for purposes of determining the repayment term pursuant to §428C (2)(A) of the Higher Education Act. Currently, the different repayment periods required to be offered for Consolidation Loans, based on the sum of the principal balances of the Consolidation Loan and other student loans (up to but not in excess of the balance of the Consolidation Loan), are as follows:

Principal Balance	Repayment Term	Principal Balance	Repayment Term
Less than \$7,500	Not more than 10 years	\$20,000 to \$39,999	Not more than 20 years
\$7,500 to \$9,999	Not more than 12 years	\$40,000 to \$59,999	Not more than 25 years
\$10,000 to \$19,999	Not more than 15 years	\$60,000 or more	Not more than 30 years

New borrowers on or after October 1, 1998, who accumulate (after such date) outstanding Consolidation Loans (subsidized and unsubsidized) totaling more than \$30,000 qualify for an extended repayment plan, with a fixed annual or graduated repayment amount paid over an extended period of time, not to exceed twenty-five (25) years, except that in no instance may the payment be less than the amount of interest due and payable.

Repayment must commence within sixty (60) days after all holders have discharged the liability of the borrower on the loans selected for consolidation. The minimum repayment installment cannot be less than the accrued and unpaid interest.

**Insurance and Interest Subsidy.** For Consolidation Loan applications received by lenders on or after August 10, 1993, and before November 13, 1997, the Secretary will not make Interest Subsidy Payments on Consolidation Loans unless they consolidate only subsidized Stafford Loans. For Consolidation Loan applications received by lenders on or after November 13, 1997, the Secretary will make Interest Subsidy Payments on only the

portion of the Consolidation Loan that repays subsidized Stafford Loans. No interest subsidy is payable with respect to the portion of a Consolidation Loan representing loans made under Subpart I of Part A of Title VII of the Public Health Service Act or Perkins Loans.

Further, no insurance premium may be charged to a borrower and no insurance premium may be charged to a lender in connection with a Consolidation Loan. However, a fee may be charged to the lender by the guaranty agency to cover the costs of increased or extended liability with respect to a Consolidation Loan.

**Holder Rebate to Federal Government.** Each holder of a Consolidation Loan first disbursed on or after October 1, 1993, is required to pay to the Secretary a rebate fee calculated on an annual basis and equal to 1.05% of the principal plus accrued and unpaid interest on the Consolidation Loan, such fee to be paid in monthly installments. The 1998 Reauthorization Bill made a temporary reduction in the Consolidation Loan Rebate Fee from 1.05% to 0.62% per annum for loans on which applications are received between October 1, 1998, and January 31, 1999.

**Direct Loans.** If 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 (which are selected for consolidation), or from any other lender, the Secretary is required to offer the borrower, if the borrower so requests, a direct Consolidation Loan under the FDSLPL. Such direct Consolidation Loans shall be repaid either pursuant to income contingent repayment or any other repayment provisions under the Consolidation Loan provisions. If the Secretary determines that the U.S. Department of Education does not have the necessary origination and servicing arrangements in place for such loans, the Secretary shall not offer such loans.

### **SPECIAL ALLOWANCE PAYMENTS**

FFELP provides, subject to certain conditions, for Special Allowance Payments to be made for quarterly periods by the Secretary to holders of qualifying Guaranteed Loans.

The rate of Special Allowance Payments for a particular loan is dependent on a number of factors including when the loan was disbursed and for what period of enrollment the loan covers. Generally, the sum of the stated interest on the loan and the applicable Special Allowance Payment will be between 3.1 and 3.5 percentage points above the average of bond equivalent rates of 91-day Treasury Bills auctioned for that quarter (the "**T-Bill Basis**"). For loans made on or after October 1, 1992, the Special Allowance Payment is calculated based on the T-Bill Basis plus 3.1%, except that Stafford Loans made on or after July 1, 1995, qualify for Special Allowance Payments based on the T-Bill Basis plus 2.5% while the borrower is in school, grace or deferment status. In the case of certain loans made or purchased with funds obtained from the issuance of tax-exempt obligations originally issued prior to October 1, 1993, the Special Allowance Payments are reduced by approximately one-half, but not less than certain minimums provided in the Higher Education Act.

For Stafford Loans disbursed on or after July 1, 1998, and before January 1, 2000, Special Allowance Payments are based on the T-Bill Basis plus 2.2% while borrowers are in school, grace or deferment status, or 2.8% while borrowers are in repayment periods. For PLUS Loans disbursed on or after July 1, 1998, and before January 1, 2000, Special Allowance Payments are based on the T-Bill Basis plus 3.1% to the extent such computation exceeds 9%. The rate of Special Allowance Payments is subject to reduction by the amount of certain origination fees charged to borrowers and may be reduced as a result of certain federal budget deficit reduction measures.

Special Allowance Payments are made on Consolidation Loans whenever the rate charged the borrower is limited by the 9%/8.25% cap. However, for applications received on or after October 1, 1998, Special Allowance Payments are paid in order to afford the lender a yield equal to the 91-day Treasury Bill plus 3.1% whenever the formula exceeds the borrower's interest rate. For Consolidation Loans based upon consolidation applications received on or after October 1, 1998, and before January 1, 2000, there would be no Special Allowance Payments for such loans during any three (3) month period ending March 31, June 30, September 30, or December 31 unless the T-Bill Basis for the applicable quarter plus 3.1% exceeds the interest determined for such loans.

Notwithstanding the foregoing, no Special Allowance Payments are made with respect to the portion of a Consolidation Loan representing loans made under Subpart I of Part A of Title VII of the Public Health Service Act.

For eligible loans first disbursed on or after January 1, 2000, and before July 1, 2006 (or in the case of Consolidation Loans, applications received on or after January 1, 2000, but before July 1, 2006), the Special Allowance Payment is calculated based on the average of the bond equivalent rates of the quotes of the three (3) month commercial paper (financial) rates in effect for each of the days in such quarter as reported by the Federal Reserve in Publication H-15 (or its successor) (the "**CP Rate**") plus 1.74% during the in-school period, the grace period and certain deferment periods, and at the following rates during repayment or forbearance periods:

<b>Loan Type</b>	<b>Applicable SAP Rate - Repayment/Forbearance</b>
Stafford Loan <sup>1</sup>	CP Rate plus 2.34%
PLUS Loan <sup>2</sup>	CP Rate plus 2.64%
Consolidation Loan <sup>3</sup>	CP Rate plus 2.64%

<sup>1</sup> In the case of Stafford Loans on which the first disbursement was made after January 1, 2000, no Special Allowance Payment will be made on a loan for any quarterly period in which the applicable interest rate on the loan exceeds the CP Rate plus the applicable spread.

<sup>2</sup> In the case of PLUS Loans on which the first disbursement was made after July 1, 1998, no Special Allowance Payment will be made on a loan during any twelve (12) month period beginning on July 1 and ending on June 30 unless, on the June 1 preceding such July 1, the bond equivalent rate of 91-day Treasury bills auctioned at the final auction held prior to June 1 plus 3.1% exceeds 9%.

<sup>3</sup> For Consolidation Loans based upon consolidation applications received on or after January 1, 2000, no Special Allowance Payment will be made on a loan during any quarterly period in which the applicable interest rate on the loan exceeds the CP Rate plus 2.64%.

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, during the life of the loan, to receive those Special Allowance Payments. Receipt of Special Allowance Payments, however, is conditioned on compliance with the Higher Education Act, including continued eligibility of the loan for federal insurance or reinsurance benefits. Such eligibility may be lost due to violations of the Higher Education Act or applicable guarantee agreements specifying servicing and collection of the loan in the event of delinquency. The Higher Education Act also provides that if Special Allowance Payments have not been made within thirty (30) days after the Secretary receives an accurate, timely and complete request therefor, the Secretary must pay interest on the amounts due beginning on the 31<sup>st</sup> day at a rate equal to the sum of the daily equivalent loan interest rate and the daily equivalent Special Allowance Payment rate, both as applicable to the affected loans.

## **GUARANTEE AND REINSURANCE FOR FFELP LOANS**

**Guarantee Payments To Lenders.** For loans made prior to October 1, 1993, an eligible lender may be reimbursed by the guaranty agency for 100% 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. However, any holder of a loan in default which was first disbursed on or after October 1, 1993, is entitled to receive no more than 98% of the unpaid principal of such loan from the guaranty agency (except for a loan made by a lender-of-last resort or under any agreement resulting from a guaranty agency insolvency, in which cases the applicable percentage rate is 100%), plus accrued and unpaid interest.

### **Federalization and Recall of Guaranty Agency Reserves.**

1993 Amendments to the Higher Education Act. §422 of the Higher Education Act (particularly the amendment by Public Law 103-66 effective on August 10, 1993), provides that the reserve funds of all guaranty agencies under the Higher Education Act shall be considered the property of the United States to be used in connection with the Federal Family Education Loan Programs and Consolidation Loan Programs under Parts B and C of Title IV of the Act. (United States Code, Title 20, Section 1072(g)). The Higher Education Act further provides that the Secretary may direct a guaranty agency to return to the Secretary a portion of its reserve fund which the Secretary determines is unnecessary to pay the program expenses and contingent liabilities of the guaranty agency.

Higher Education Act Amendments of 1998. The Higher Education Act Amendments of 1998 add new §§422A and 422B to the Higher Education Act. §422A requires each guaranty agency to establish a Federal Student Loan Reserve Fund (the "**Federal Fund**") into which all federal reserves must be deposited. Additionally, all reinsurance payments from the Secretary and the reinsurance percentage of all default collections must be deposited in the Federal Fund. Subject to some transitional exceptions, amounts in the Federal Fund may only be used to pay lender claims on defaulted loans and to disburse default prevention fees to an Agency Operating Fund required to be established under new §422B. Earnings on the Federal Fund would be the sole property of the federal government.

§422B requires each guaranty agency to establish an Agency Operating Fund within forty-five (45) days of enactment of the proposed reauthorization legislation. All loan processing and issuance fees, portfolio maintenance fees and default prevention fees paid by the Secretary as well as the uninsured portion of default collections (after payment of the Secretary's equitable share and excluding required deposits in the Federal Fund) must be deposited in the Agency Operating Fund. Funds in the Agency Operating Fund may only be used for application processing, loan disbursement, enrollment and repayment status management, permitted default prevention activities, default collection activities, school and lender training, compliance monitoring and other student financial aid related activities as determined by the Secretary and for voluntary irrevocable transfers to the Federal Fund. Except for funds transferred from the Federal Fund, the Agency Operating Fund may be considered to be the property of the guaranty agency.

Payment by Secretary Upon Guaranty Agency Insolvency. Under §432(o) of the Higher Education Act, in the event that the Secretary determines that a guaranty agency is unable to meet its insurance obligations with respect to payment of default claims, the holder of loans insured by the guaranty agency may submit insurance claims directly to the Secretary and the Secretary shall pay to the holder the full insurance obligation of the guaranty agency, in accordance with insurance requirements no more stringent than those of the guaranty agency. However, the Secretary's obligation to pay guarantee claims directly in this fashion is contingent upon the Secretary making the determination referred to above. There can be no assurance that the Secretary would ever make such a determination with respect to any specific guaranty agency or, if such a determination was made, whether such determination or the ultimate payment of such guarantee claims would be made in a timely manner.

### **Federal Reinsurance Payment to Guaranty Agencies.**

Generally. The Secretary enters into a guarantee agreement with each guaranty agency, which provides for federal reinsurance for amounts paid to eligible lenders by the guaranty agency with respect to defaulted loans. Pursuant to such agreements, the Secretary is to reimburse a guaranty agency for 100% of the amounts owed on a loan made prior to October 1, 1993, and 98% of the amounts owed on a loan made on or after October 1, 1993, and 95% of the amounts owed on a loan made on or after October 1, 1998, for losses upon notice and determination of such amounts subject to reduction based on the guaranty agency's claims rate (as described below). The Secretary is also authorized to acquire the loans of borrowers who are at high risk of default and who request an alternative repayment option from the Secretary.

Reductions in Reinsurance Payments Based on Claims Rate. The amount of such reinsurance payments is subject to reduction based upon the annual claims rate of the guaranty agency calculated to equal the amount of federal reinsurance received as a percentage of the original principal amount of guaranteed loans in repayment on

the last day of the prior fiscal year. The original principal amount of loans guaranteed by a guaranty agency that are in repayment for purposes of computing reimbursement payments to a guaranty agency means the original principal amount of all loans guaranteed by a guaranty agency *less*: (1) the original principal amount of such loans that have been fully repaid either by borrowers or by guarantee payments, and (2) the original amount of such loans for which the first principal installment payment has not become due. Claims resulting from the death, bankruptcy, total and permanent disability of a borrower, the death of a student whose parent is the borrower of a PLUS Loan, or claims by borrowers who received loans on or after January 1, 1986, and who are unable to complete the programs in which they are enrolled due to a school closure or borrowers whose borrowing eligibility was falsely certified by the eligible institution are not included in calculating a guaranty agency's claims rate experience for federal reinsurance purposes and are reimbursed at 100%. The first trigger for a reduction in reinsurance payments is when the amount of the defaulted loan reimbursements exceeds 5% of the amount of all loans guaranteed by the guaranty agency in repayment status at the beginning of the federal fiscal year. The second trigger is when the amount of defaults exceeds 9% of the loans in repayment. The claims experience is not accumulated from year to year, but is determined solely on the basis of claims paid in any one federal fiscal year compared with the original principal amount of loans in repayment at the beginning of that year. Guarantee reinsurance rates are presented in the following table:

<u>Claims Paid Date</u>	<u>Maximum</u>	<u>5% Trigger</u>	<u>9% Trigger</u>
Before October 1, 1993	100%	90%	80%
October 1, 1993 – September 30, 1998*	98%	88%	78%
On or after October 1, 1998*	95%	85%	75%

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\* Other than loans made pursuant to the lender-of-last resort program or student loans transferred by an insolvent guaranty agency both of which are reinsured at 100%

After a federal reinsurance claim is paid, the guaranty agency is, however, entitled to deduct from payments received from a borrower an amount equal to the amount of the borrower payment multiplied by the complement of the reinsurance percentage.

**Guaranty Agency Insolvency.** In addition, if a guaranty agency is unable to meet its guarantee obligations, holders of loans may submit insurance claims directly to the Secretary until such time as the obligations are transferred to a new guaranty agency capable of meeting such obligations or until a successor guaranty agency assumes such obligations. Federal reinsurance and insurance payments for defaulted loans are paid from the Student Loan Insurance Fund established under the Higher Education Act. The Secretary 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.

**Timing of Default Claims and Payment.** A Federal Family Education Loan is generally considered to be in default upon the 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 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 sixty (60) or more days past due, the holder is required to request default aversion assistance from the applicable guaranty agency before the 120<sup>th</sup> day of delinquency in order to attempt to cure the delinquency. The holder is required to continue collection efforts until the loan is past due for the applicable time period. At the time of payment of the claim, the holder must assign to the applicable guaranty agency all rights accruing to the holder under the note evidencing the loan. The Higher Education Act prohibits a guaranty 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 or later than forty-five (45) days after the guaranty agency's discharge of its obligation on the loan.

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

The Secretary may withhold reimbursement payments if a guaranty agency makes a material misrepresentation or fails to comply with the terms of its agreements with the Secretary or applicable federal law. A supplemental guarantee agreement between a guaranty agency and the Secretary is subject to termination for cause by the Secretary. All guaranty agencies are required to comply with certain due diligence requirements established pursuant to the Secretary's regulations regarding collection procedures to be exercised on loans for which the guaranty agency pays a default claim. In particular, since March 1987, guaranty agencies have been required to institute civil litigation against certain borrowers within a specified time period, unless: (i) the cost of litigation would exceed the likelihood of recovery or (ii) the borrower has insufficient means to satisfy a substantial portion of a judgment on the debt. Noncompliance with this requirement may result in a guaranty agency being required to repay reinsurance payments received on such loans. In addition, the Secretary may, among other remedial actions available to it, elect to withhold payments to the guaranty agency and suspend or terminate all agreements with the guaranty agency.

**Federal Administrative Cost Allowances, Insurance Fees and Reinsurance Fees.** Under the 1998 reauthorization of the Higher Education Act, for loans originated during federal fiscal years beginning on or after October 1, 1998, and before October 1, 2003, the Secretary pays each guaranty agency a loan processing and issuance fee equal to 0.65% of the total principal amount of the loans on which insurance was issued during such fiscal year. Effective for federal fiscal years beginning on or after October 1, 2003, the fee percentage is reduced to 0.40%. A guaranty agency is paid an account maintenance fee based upon the original principal amount of outstanding loans under the FFELP insured by such guaranty agency. For Federal fiscal years 1999 and 2000, the fee is 0.12%. After Federal fiscal year 2000, the fee will be 0.10%.

Under the guarantee agreements and the supplemental guarantee agreements, if a payment on an eligible loan guaranteed by a guaranty agency is received after reimbursement by the Secretary, the guaranty agency is entitled to receive a share of the payment. Guaranty agency retention on such collections was reduced to 27% of the repayment from 30% for loans first disbursed after October 1, 1993, and was further reduced by the 1998 reauthorization of the Higher Education Act to 24%. The 1998 reauthorization of the Higher Education Act also provides that the percentage will be further reduced to 23% beginning on October 1, 2003.

Any originator of any FFELP Loan guaranteed by a guaranty agency is required to pay to the guaranty agency from the proceeds of the loan at the time of disbursement and may discount an insurance premium which may not exceed that permitted under the Higher Education Act.



## **FFELP LOANS GENERALLY NOT SUBJECT TO DISCHARGE IN BANKRUPTCY**

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

(a) A discharge under §727, 1141, 1228(a), 1128(b), or 1328(b) of this title does not discharge an individual debtor from any debt –

\* \* \* \* \*

(8) unless excepting such debt from discharge under this paragraph would impose an undue hardship on the debtor and the debtor's dependents, for --

(A)(i) an education benefit overpayment or loan made, insured, or guaranteed by governmental unit, or made under any program funded in whole or in part by a governmental unit or nonprofit institution; or (ii) an obligation to repay funds received as an educational benefit, scholarship, or stipend; or

(B) any other educational loan that is a qualified education loan, as defined in section 221(d)(1) of the Internal Revenue Code of 1986, incurred by a debtor who is an individual;

Issues of undue hardship are first resolved by the U.S. Bankruptcy Court having jurisdiction over the case in which the undue hardship claim is asserted. Determinations of undue hardship are generally fact-based and are subject to review on appeal.

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**EXHIBIT II**

**GLOSSARY OF CERTAIN DEFINED TERMS  
FROM THE GENERAL AND 2005 SERIES RESOLUTIONS**

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## GLOSSARY OF CERTAIN DEFINED TERMS FROM THE GENERAL AND 2005 SERIES RESOLUTIONS

The following are some of the terms defined in the Corporation's General Resolution and 2005 Series Resolution pursuant to which the 2005 Bonds are issued. Where appropriate or necessary for a clearer indication of meaning for purposes of this Offering Memorandum, some of the following definitions have been slightly modified. For purposes of such definitions, unless the context otherwise requires:

- (i) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Words importing the singular number shall include the plural number and vice versa, and words importing persons shall include firms, associations, partnerships (including limited partnerships), trusts, corporations, or other legal entities including public bodies, as well as natural persons.
- (ii) The terms "hereby", "hereof", "hereto", "herein", "hereunder", and any similar terms, as used in this Resolution, refer to this Resolution or sections or subsections of this Resolution and the term "hereafter" means after the date of adoption of the General Resolution.

Some of these terms are used in this Offering Memorandum and, unless the context in which such terms are herein used clearly indicates some other meaning, such terms used herein shall have the same meanings ascribed to them in the General Resolution or the 2005 Series Resolution, as appropriate.

### **Defined Terms**

"Account or Accounts" means one or more of the separate accounts which are established within Funds created pursuant to the General Resolution.

"Accountant's Certificate" means an opinion signed by an independent certified public accountant or firm of certified public accountants of recognized standing (who may be the certified public accountant or firm of certified public accountants who regularly audit the books and accounts of the Corporation) selected from time to time by the Corporation.

"Act" means Chapter 115 of Title 59 of the Code of Laws of South Carolina, 1976, as amended, as existing at the date of adoption of the General Resolution, or as thereafter amended.

"Alternative Loan" means an obligation acquired or to be acquired by the Corporation with funds made available pursuant to the General Resolution which represents advances of money made to or on behalf of a student evidenced by one or more promissory notes, the payment of principal of and interest on which is not insured by a Guaranty Agency nor reinsured by the Secretary under the Higher Education Act; provided, that such Alternative Loans may not be acquired within the Resolution while 2005 Bonds are Outstanding.

"Annual Budget" means the annual budget, as amended or supplemented, for a particular Fiscal Year adopted by the Corporation under the General Resolution and filed with the Trustee.

"Applicable Rating Criteria for Investment Obligations" means:

- (i) for as long as Fitch Ratings is a Rating Agency, a rating by a Nationally Recognized Rating Service no lower than AA (or the equivalent) or F-1+ (or the equivalent), as appropriate;
- (ii) for as long as Moody's Investors Service is a Rating Agency, a rating by Moody's Investors Service no lower than Aa2 (or the equivalent) or P-1 (or the equivalent), as appropriate; provided, that, if such Investment Obligations consist of money market funds as described in the General Resolution, such Investment Obligations must bear a rating by Moody's Investors Service of Aaa; and
- (iii) for as long as Standard & Poor's is a Rating Agency, a rating by Standard & Poor's no lower than the highest rating on any Tranche of Outstanding Bonds or A-1, AAAM or AAAM-G, as appropriate.

“Authority” means the South Carolina State Education Assistance Authority, a body politic and corporate and a public instrumentality of the State of South Carolina.

“Authorized Denomination” means \$200,000 and available for purchase in multiples of \$1,000 above such amount.

“Authorized Newspaper” means a financial journal, printed in the English language and customarily published (except in the case of legal holidays) at least once a day for at least five (5) days in each calendar week, of general circulation in the Borough of Manhattan, City and State of New York or a newspaper of general statewide circulation in the State.

“Authorized Officer” means (i) in the case of the Authority, the Chairman or other designated officer, and (ii) in the case of the Corporation, the Chairman of its Board of Directors, its President or any other officer designated by the Chairman or the President.

“Bankruptcy Code” means the United States Bankruptcy Code, as amended from time to time, or any successor law.

“Beneficial Owners” means a Person who has an ownership interest in the 2005 Bonds Outstanding in book-entry form.

“Board” means the Board of Directors of the Corporation.

“Bond” or “Bonds” means any South Carolina Student Loan Corporation Education Loan Revenue Bonds of any Series authorized by an applicable Series Resolution and issued under the General Resolution.

“Bond Counsel Opinion” means an opinion of an attorney or firm of attorneys of recognized standing with respect to public finance law selected by the Corporation.

“Bondholder”, or “Bondowner” or “Holder”, or “Holders of Bonds”, or any similar term (when used with reference to the Bonds) means any person who shall be the registered owner of any Outstanding Bond.

“Business Day” means any day other than a Saturday, Sunday, legal holiday or any other day on which banking institutions in the State of New York or the state in which the principal corporate trust office of the Trustee is located, are generally authorized or obligated by law or executive order to close or on which the New York Stock Exchange is closed.

“Calculation Agent” means, with respect to each Tranche of the 2005 Bonds, the Trustee or its successors or assigns, such successors to be appointed pursuant to the 2005 Series Resolution.

“Cash Flow Certificate” means a certificate prepared by or on behalf of the Corporation setting forth, for the period extending from the date of such certificate to the latest maturity of the Bonds then Outstanding, (i) all Revenues Available for Debt Service expected to be received during such period; (ii) the application of all such Revenues Available for Debt Service in accordance with the General Resolution; (iii) the resulting balances and parity ratio; and establishing under all assumptions and scenarios requested by each Rating Agency and used for a cash flow analysis to accompany such certificate, that anticipated Revenues Available for Debt Service will be at least sufficient to pay the principal of and interest on the Bonds when due, to pay all other amounts payable under the General Resolution when due and to meet any required parity ratio.

“Certificate” means a document signed by an Authorized Officer attesting to or acknowledging the circumstances or other matters therein stated.

“Chairman” means the Chairman of the Board of Directors of the Corporation.

“Class” means a class of Bonds all sharing the same lien priority.

“Closing Date” means the date on which the 2005 Bonds are delivered.

“Code” means the Internal Revenue Code of 1986, as amended from time to time or the Internal Revenue Code of 1954, as amended, as applicable. Each reference to a Section of the Code, shall be deemed to include the United States Treasury Regulations, including temporary and proposed regulations, relating to such sections which are applicable to the Bonds or the use of the proceeds thereof.

“Continuing Disclosure Undertaking” means the covenant of the Corporation described in the General Resolution and more fully set forth in each Series Resolution.

“Corporation” means the South Carolina Student Loan Corporation, a private, not-for-profit corporation established in 1973 under Title 33, Chapter 31, Code of Laws of South Carolina, 1976, as amended, acting in its capacity as an Eligible Lender or as agent of the Authority in administering certain components of the Student Loan Insurance Program, and its successors and assigns.

“Corporation Issuance and Sale Certificate” means a certificate executed and delivered by an Authorized Officer of the Corporation, which certificate shall be filed among the official records of the Corporation, in which such Authorized Officer shall certify the Corporation’s determination to issue the 2005 Bonds and shall determine the number of Tranches, the principal amount of each Tranche, the Stated Maturity of each Tranche, Spread Factors, the respective Targeted Amortization Schedules, the deposits required into certain Funds and Accounts and such other matters as shall be further provided therein with respect to the details of the 2005 Bonds.

“Costs of Issuance” means the costs of issuing any Series of Bonds.

“Cost of Issuance Account” means the account so designated which is established pursuant to the General Resolution.

“Counsel’s Opinion” means an opinion in writing, including supplemental opinions thereto, signed by such attorney or firm of attorneys of recognized national standing in the field of law relating to public finance as may be selected by the Corporation.

“Debt Service” means, with respect to any particular Fiscal Year and any particular Series of Bonds, an amount equal to the sum of all interest payable on such Bonds and any Principal Installment in respect of such Bonds which shall be due and payable at any time from the second day of such Fiscal Year to the first day of the ensuing Fiscal Year, inclusive.

“Debt Service Reserve Fund” means the Fund so designated which is created by the General Resolution.

“Debt Service Reserve Requirement” means, as of any particular date of calculation, the greatest of (i) the sum of the amounts designated for each Series of Bonds in the Series Resolution related thereto as the “Debt Service Reserve Requirement” in respect of such Series, (ii) 0.1% times the original principal amount of all Tranches Outstanding as of such date, or (iii) \$750,000. The Debt Service Reserve Requirement may be composed of cash, Investment Obligations or Reserve Alternative Instruments or any combination of the foregoing, as the Corporation may determine.

“Debt Service Fund” means the Fund so designated which is created by the General Resolution.

“Default Payment” means moneys received, realized or recovered through proceedings taken by the Corporation in the event of default in respect of any Education Loan or in respect of any insurance on or guarantee with respect to any Education Loan, including moneys received pursuant to a contract of insurance in respect of any Education Loan.

“Defeasance Obligations” means and include any of the following securities, if and to the extent they are at the time legal for investment of funds of the Corporation: non-callable direct obligations of, or obligations the timely payment of principal and interest on which is fully and unconditionally guaranteed by, the United States of America.

“Depository” means any bank, trust company, national banking association or savings and loan association selected by the Corporation or the Trustee as a depository of moneys or securities held under the provisions of the General Resolution and may include the Trustee or any Paying Agent.

“Education Loans” shall mean, collectively, Guaranteed Loans and Alternative Loans.

“Eligible Institution” means any educational institution which is an eligible institution as described in the Higher Education Act of 1965, as amended, and also so described in the Act.

“Eligible Lender” means (i) the Authority, (ii) the Corporation and (iii) all other entities which are eligible lenders as described in the Higher Education Act, which have in force a contract with a Guaranty Agency providing for loan guarantees to be issued by such Guaranty Agency to such entity under the Higher Education Act and the Act.

“Ending Balance Factor” means, for any given day, the number calculated by dividing the unpaid principal balance of each Tranche of the 2005 Bonds Outstanding (after any Principal Reduction Payments are made) by the original principal balance of such Tranche of the 2005 Bonds and rounding the result to nine decimal places.

“Federal Agency” means the United States of America, or any agency, department or instrumentality of the United States of America.

“Fiduciary or Fiduciaries” means the Trustee and any successor, the Registrar, any Depository, any Paying Agent, or any of or all of them, as may be appropriate.

“Fiscal Year” means each annual period which begins on July 1 in any calendar year and ends on June 30 in the following calendar year.

“Fund” or “Funds” means one or more of the special trust funds which are created hereby.

“General Revenue Fund” means the fund so designated which is created by the General Resolution.

“Guarantee Agency” or “Guaranty Agency” means the Authority acting in its capacity as a state guarantee agency under the Higher Education Act or other authorized guaranty agency under the Higher Education Act approved by each Rating Agency.

“Guaranteed Loan” means an obligation acquired or to be acquired by the Corporation with funds made available pursuant to the General Resolution which represents advances of money made by an Eligible Lender to or on behalf of a student attending or enrolled at an Eligible Institution, evidenced by one or more promissory notes, the payment of principal of and interest on which is guaranteed by a Guaranty Agency and reinsured as to principal amount and interest by the Secretary to the maximum extent then authorized under the Higher Education Act and agreements entered into by a Guaranty Agency and the Secretary pursuant to the Higher Education Act; or such an obligation for which there is a commitment by the Secretary to so insure or by the Guaranty Agency and the Secretary to so insure and reinsure.

“Higher Education Act” means the United States Higher Education Act of 1965, as amended, or any successor legislation pursuant to which programs are established for the direct federal insurance of student loans, reinsurance of loans (including Guaranteed Loans) guaranteed by state guarantee agencies, and other purposes.

“Initial LIBOR Indexed Rate” means, with respect to a Tranche, the applicable rate of interest set forth as such in the Corporation Issuance and Sale Certificate.

“Initial Period” means the period beginning on the Closing Date and ending on the day before the first Interest Rate Adjustment Date for the respective Tranche of the 2005 Bonds.

“Interest Account” means the account so established within the Debt Service Fund by the General Resolution.



“Interest Payment Date” means the first Business Day of September 2005 and the first Business Day of each December, March, June, and September thereafter.

“Interest Period” means the Initial Period and thereafter each period commencing on an Interest Rate Adjustment Date and ending on the day before the next Interest Rate Adjustment Date.

“Interest Rate Adjustment Date” means the date on which a particular interest rate becomes effective, being each Interest Payment Date.

“Interest Rate Determination Date” means the second Business Day immediately preceding each Interest Rate Adjustment Date.

“Interest Subsidy Payments” means interest subsidy payments payable in respect to any Guaranteed Loans by the Secretary under Section 428 of the Higher Education Act.

“Investment Obligations” means any of the following securities, if and to the extent the same are at the time legal for investment of moneys and funds held under the General Resolution:

- (i) Direct obligations of the United States or obligations guaranteed as to full and timely payment both as to principal and interest by the United States;

- (ii) General obligations of the State or other states of the United States provided that such obligations meet the Applicable Rating Criteria for Investment Obligations;

- (iii) General obligations of cities, counties and special purpose districts in the State provided that such obligations meet the Applicable Rating Criteria for Investment Obligations;

- (iv) Obligations of any company, other organization or legal entity incorporated or otherwise created or located within or without the United States if such obligations meet the Applicable Rating Criteria for Investment Obligations;

- (v) To the extent that the following meet the Applicable Rating Criteria for Investment Obligations and the full and timely payment thereof are guaranteed by the United States, obligations of the Federal Financing Bank, the Federal Farm Credit Bank, the Bank for Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, the Rural Economic and Community Development Administration, the United States Postal Service, the Export-Import Bank, the International Bank for Reconstruction and Development, the International Finance Corporation, the Inter-American Development Bank, the Asian Development Bank, the African Development Bank, and the Student Loan Marketing Association.

- (vi) Repurchase Agreements with respect to securities issued or guaranteed by the United States government or its agencies as well as debt obligations issued by the Student Loan Marketing Association, Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation which may include mortgage-backed and mortgage pass through securities but may not include derivative instruments, which Repurchase Agreements are executed by a bank or trust company or by primary or other reporting dealers to the Federal Reserve Bank of New York which transferor of such securities continuously meets the Applicable Rating Criteria for Investment Obligations, if:

- (a) the obligations that are subject to such repurchase agreement are delivered (in physical or in book-entry form) to the Trustee, or any financial institution serving as custodian for the Trustee, provided, that such repurchase agreement must provide that the value of the underlying obligations shall be maintained at a current market value, calculated at least daily, of not less than one hundred and two percent (102%) of the repurchase price, and, provided, further, that the financial institution serving either as Trustee or as custodian shall not be the provider of the repurchase agreement;

(b) a valid and perfected first security interest in the obligations which are the subject of such repurchase agreement has been granted to the Trustee;

(c) such securities are free and clear of any adverse third party claims; and

(d) a Counsel's Opinion is delivered to the Corporation providing that the repurchase agreement complies with applicable provisions of State law regarding the investment of funds.

The Rating Agencies shall be given prior written notice describing such Repurchase Agreements.

(vii) To the extent that the following continuously meet the Applicable Rating Criteria for Investment Obligations, savings certificates issued by any savings and loan association organized under the laws of the State or by any federal savings and loan association having its principal office in the State; provided, that the rate of return or investment yield may not be less than that available in the market on United States government or agency obligations of comparable maturity;

(viii) To the extent that the following continuously meet the Applicable Rating Criteria for Investment Obligations, certificates of deposit issued by banks organized under the laws of the State, or by any national bank having its principal office in the State; provided, that the rate of return or investment yield may not be less than that available in the market on United States government or agency obligations of comparable maturity;

(ix) To the extent that the following continuously meet the Applicable Rating Criteria for Investment Obligations, deposits in any savings and loan association organized under the laws of the State or any federal savings and loan association having its principal office in the State; provided, that any moneys invested in such deposits in excess of the amount insured by the federal government or any agency thereof be fully secured by surety bonds, or be fully collateralized;

(x) Prime quality commercial paper meeting the Applicable Rating Criteria for Investment Obligations;

(xi) Bills of exchange or time drafts drawn on and accepted by a commercial bank and eligible for use as collateral by member banks in borrowing from a federal reserve bank, provided, that the accepting bank or its holding company (a) meets the Applicable Rating Criteria for Investment Obligations and (b) is incorporated in the State;

(xii) Asset-backed securities (whether considered debt or equity) provided they bear the highest rating of each Rating Agency;

(xiii) Guaranteed Investment Contracts with a financial institution whose long term debt obligations continuously meet the Applicable Rating Criteria for Investment Obligations and for which the Rating Agencies shall have been given prior written notice describing such Guaranteed Investment Contracts; and

(xiv) Investments in a money market fund which bears a rating which continuously meets the Applicable Rating Criteria for Investment Obligations.

"Issue Date" means with respect to Bonds of a particular Series, the date specified and determined by the Series Resolution authorizing such Bonds.

"LIBOR Indexed Rate" means, with respect to each Tranche, the interest rate established by the Calculation Agent on each Interest Rate Determination Date and equal to the LIBOR Rate plus the applicable Spread Factor.

“LIBOR Rate” means, for any given day, the rate per annum fixed by the British Bankers’ Association at 11:00 a.m., London time (the “BBA Libor Rate”), on such day relating to quotations for London Interbank Offered Rates on U.S. dollar deposits for a three (3) month period. If such a day is not a business day in London, then the rate most recently fixed as the BBA Libor rate for a (3) month period shall be used. Such rate may be available at Bloomberg US0003M<Index>HP. If the rate is no longer available from such source, the Calculation Agent will ascertain the rate in good faith from such sources as it shall determine to be comparable to such source.

“Loan Account” means the account of that name established in the Program Fund.

“Mandatory Sinking Fund Installment” means the principal amount of Bonds of all Series which pursuant to the applicable Series Resolutions the Corporation is unconditionally required (except as provided in the General Resolution) to redeem on any particular date (such that failure to redeem such principal amount is, regardless of the availability of moneys therefor, an Event of Default).

“Nationally Recognized Rating Service” means any of Standard & Poor’s, Moody’s Investors Service, Inc. or Fitch Ratings or the successor to any.

“Operating Costs” means, all of the Corporation’s expenses in carrying out and administering the Student Loan Finance Program under the General Resolution and shall include, without limiting the generality of the foregoing, auction agent fees, Servicing Fees, salaries, acquisition and servicing fees (other than Servicing Fees), supplies, utilities, mailing, labor, materials, maintenance, furnishings, equipment, machinery and apparatus, telephone, insurance premiums, legal, accounting, management, consulting and banking services and expenses, Rating Agency fees, any credit or liquidity facility fees and expenses, fees and expenses, if any, incurred in remarketing the Bonds, fees and expenses of the Fiduciaries, Costs of Issuance not otherwise paid or provided for from the proceeds of Bonds, travel, payments for pension, thrift savings, retirement, health and hospitalization, and life and disability insurance benefits, all to the extent properly allocable to a financing under the General Resolution.

“Operating Fund” means the fund so designated which is created by the General Resolution.

“Operating Fund Requirement” means as of any date, an amount equal to the Operating Costs of the Corporation for the current month and such additional amount as the Corporation deems appropriate, but in no event, more than four (4) months of Operating Costs in total as reflected by the Annual Budget.

“Other Federal Benefits” means all payments (including interest payments) now or hereafter provided by law, other than Default Payments, to be paid by the Secretary or any other Federal Agency to a holder of student loans, less any repayments thereof that may be required under contracts for such payments or as a condition for their receipt.

“Outstanding” when used with reference to any Bonds, means, as of any date, all Bonds theretofore or then being authenticated and delivered under the General Resolution except:

- (i) any Bonds canceled by the Trustee at or prior to such date;
- (ii) Bonds (or portions thereof) for the payment of which there shall be held in trust under the General Resolution (whether at or prior to maturity) (a) cash, equal to the principal amount or Redemption Price thereof, with interest to the date of maturity, or (b) Defeasance Obligations in amounts sufficient to pay the Redemption Price on such Bonds when due;
- (iii) Bonds in lieu of or in substitution for which other Bonds shall have been authenticated and delivered pursuant to Article III of the General Resolution; and
- (iv) Bonds deemed to have been paid as provided in the General Resolution.

“Participant” means a participant in the electronic, computerized book-entry system of transferring beneficial ownership interests in the 2005 Bonds administered by the Securities Depository.

“Paying Agent” means, (a) with respect to the 2005 Bonds, the Trustee, as well as any Co-Paying Agent appointed by the Corporation under the General Resolution, and (b) generally, any bank with trust powers or trust company so designated pursuant to the General Resolution, and its successor or successors hereafter appointed, as paying agent for any Series of Bonds.

“Payment Default” means (i) a default by the Corporation in the due and punctual payment of any installment of interest on any of the 2005 Bonds at the time Outstanding under the Series Resolution or (ii) a default by the Corporation in the due and punctual payment of the principal or premium, if any, on any of the Outstanding Senior Lien Bonds at their maturity.

“Person” means any individual, corporation, partnership, joint venture, association, joint stock company, incorporated organization or government or any agency or political subdivision thereof.

“Pledged Assets” means (i) the Education Loans; (ii) interest payments with respect to Education Loans made by or on behalf of borrowers; (iii) Recoveries of Principal; (iv) any applicable Special Allowance Payments; (v) any applicable Interest Subsidy Payments; (vi) all moneys and securities from time to time held by the Trustee under the terms of the General Resolution (excluding moneys and securities held, or required to be deposited, in the Rebate Fund) and any and all other real or personal property of every name and nature from time to time hereafter by delivery or by writing of any kind conveyed, mortgaged, pledged, assigned or transferred as and for additional security hereunder.

“Principal Account” means the account of that name established within the Debt Service Fund.

“Principal Installment” means, as of the date of calculation and with respect to any Series of Bonds Outstanding, (i) the principal amount of Bonds of such Series due on a certain future date (whether at a stated maturity date or a date fixed for redemption prior to a stated maturity date) for which no Mandatory Sinking Fund Installments have been established, or (ii) the unsatisfied balance (determined as provided in the General Resolution) of any Mandatory Sinking Fund Installments in a principal amount equal to such unsatisfied balance of such Mandatory Sinking Fund Installments, or (iii) if such future dates coincide as to different Bonds of such Series, the sum of such principal amount of Bonds and of such unsatisfied balance of Mandatory Sinking Fund Installments due on such future date, plus such applicable redemption premiums, if any.

“Principal Reduction Payment” means a payment of principal on the respective Tranche of the 2005 Bonds prior to maturity thereof.

“Principal Reduction Payment Date” means each date set forth in the Targeted Amortization Schedule in the Corporation Issuance and Sale Certificate for a Principal Reduction Payment with respect to the applicable Tranche of the 2005 Bonds.

“Program Fund” means the fund established by the General Resolution.

“Rating Agency” or “Rating Agencies” means any of Standard & Poor’s, Moody’s Investors Service, Inc., Fitch Ratings. (or the successor to any) or any other generally recognized rating agency to the extent any such agency has been requested in writing by the Corporation to issue a rating on one or more Series of the Bonds and such agency has issued and continues to apply a rating on such Bonds at the time in question.

“Rebate Fund” means the Rebate Fund authorized pursuant to the General Resolution.

“Record Date” means, with respect to any installment of interest due on an Interest Payment Date, the Business Day prior to the Interest Payment Date.

“Recoveries of Principal” means all amounts received in respect of payment of principal on Education Loans held by the Corporation, including scheduled, delinquent and advance payments, payouts or prepayments, proceeds from the guarantee, or from the sale, assignment or other disposition of an Education Loan.

“Redemption Date” means a date fixed for the payment of principal prior to maturity pursuant to any applicable redemption provision of the General Resolution and any Series Resolution.

“Redemption Price” means the total of principal, premium (if any) and interest due on any Bond redeemed pursuant to any applicable redemption provision of the General Resolution and any Series Resolution.

“Refunded Bonds” means the Education Loan Revenue Bonds set forth in the Issuance and Sale Certificate.

“Registrar” means the Trustee, as well as any Co-Registrar appointed by the Corporation and the Trustee under the General Resolution.

“Reserve Alternative Instrument” means an insurance policy or surety bond or irrevocable letter of credit or guaranty deposited in the Debt Service Reserve Fund in lieu of or in partial substitution for the deposit of cash and Investment Obligations in satisfaction of the Debt Service Reserve Requirement. The Reserve Alternative Instrument shall be payable (upon the giving of notice as required thereunder) to remedy any deficiency in the appropriate subaccounts in the Interest Account and the Principal Account in order to provide for the timely payment of interest and principal (whether at maturity or to pay a Mandatory Sinking Fund Installment therefor). The provider of a Reserve Alternative Instrument shall be (a) an insurer that has been assigned a rating which continuously meets the Applicable Rating Criteria for Investment Obligations, or (b) a commercial bank, insurance company or other financial institution the bonds payable or guaranteed by which have been assigned a rating which continuously meets the Applicable Rating Criteria for Investment Obligations. The Rating Agencies shall be given prior written notice describing such Reserve Alternative Instrument.

“Resolution” means, collectively, the General Resolution and the 2005 Series Resolution.

“Revenues Available for Debt Service” means (i) interest payments with respect to Education Loans made by or on behalf of borrowers; (ii) Recoveries of Principal; (iii) any applicable Special Allowance Payments; (iv) any applicable Interest Subsidy Payments; and (v) all moneys and securities from time to time held by the Trustee under the terms of the General Resolution (excluding moneys and securities held, or required to be deposited, in the Rebate Fund).

“Secretary” means the United States Secretary of Education, or any other officer, board, body, commissioner or agency succeeding to the functions thereof under the Higher Education Act.

“Securities Depository” means The Depository Trust Company and any successor or additional securities depository for the 2005 Bonds.

“Senior Lien Bonds” means any Bonds so designated in the applicable Series Resolution authorizing such Senior Lien Bonds. With respect to the 2005 Bonds, “Senior Lien Bonds” means all 2005 Bonds.

“Series” means all of the Bonds authenticated and delivered on original issuance authorized by a given Series Resolution, and any Bonds thereafter authenticated and delivered in lieu of or in substitution for (but not to refund) such Bonds as herein provided, regardless of variations in maturity, interest rate, Mandatory Sinking Fund Installments, or other provisions.

“Series Resolution” means a resolution of the Corporation authorizing the issuance of a Series of Bonds in accordance with the terms and provisions hereof, approved by the Corporation in accordance with the General Resolution.

“Servicing Fees” means the fees payable to the Corporation to cover, inter alia, the Corporation’s reasonable and necessary expenses for operation and administration of the Student Loan Finance Program. The fees shall cover, but are not limited to, the Corporation’s reasonable and necessary expenses for operation and administration of the Student Loan Finance Program including those expenditures made for the purchase of furniture and equipment as well as those expenditures associated with the operation and maintenance of the Corporation’s facilities.

“Special Allowance Payments” means special allowance payments authorized to be made by the Secretary in respect of the Guaranteed Loans pursuant to Section 438 of the Higher Education Act or similar allowances authorized from time to time by federal law or regulation.

“Spread Factor” means the applicable percentage rate per annum designated as such for each Tranche of the 2005 Bonds in the Corporation Issuance and Sale Certificate. The Corporation has designated the Spread Factor to be [0.\_\_\_\_%] with respect to the 2005 Series A-1 Bonds, [0.\_\_\_\_%] with respect to the 2005 Series A-2 Bonds, and [0.\_\_\_\_%] with respect to the 2005 Series A-3 Bonds.

“State” means the State of South Carolina.

“Stated Maturity” means, with respect to principal of a Bond or an installment of interest thereon, the date specified in such Bond as the fixed date on which such principal or such installment of interest is due and payable.

“Student Loan Finance Program” means and include any acts or things done by the Authority or the Corporation pursuant to the Act and the General Resolution for the purpose of making available Guaranteed Loans pursuant to the Act and Alternative Loans as provided in the General Resolution.

“Student Loan Insurance Program” means the guarantee program of the Authority authorized by the Act.

“Subordinate Lien Bonds” means any Bonds that are so designated in the Series Resolution authorizing such Bonds.

“Supplemental Resolution” means any resolution supplemental to or amendatory of the General Resolution approved by the Corporation in accordance with the General Resolution.

“Targeted Amortization Payment” means a payment of principal prior to maturity to the extent Revenues Available for Debt Service are sufficient for such purpose as set forth in an applicable Series Resolution or the Corporation Issuance and Sale Certificate.

“Targeted Amortization Schedule” means the schedule (set forth in the Corporation Issuance and Sale Certificate) for Principal Reduction Payments on each respective Tranche of the 2005 Bonds prior to maturity thereof to the extent Revenues Available for Debt Service are available for such purpose.

“Tranche” means 2005 Bonds identified as such in the Corporation Issuance and Issuer Certificate and having the same prefix, stated maturity, targeted amortization schedule and interest rate methodology.

“Trustee” means The Bank of New York and the successor or successors of such bank or trust company and any other corporation which may at any time be substituted in its place pursuant to the Resolution.

“Yield” means, that yield which, when used in computing the present worth of all payments of principal and interest on an obligation, produces an amount equal to its purchase price.

“2005 Bonds” means the Corporation’s Education Loan Revenue Bonds bearing interest at the respective LIBOR Indexed Rates for the Tranches and in the original respective principal amounts set forth in the Corporation’s Issuance and Sale Certificate.

“2005 Series Resolution” means the 2005 Series Resolution.

**EXHIBIT III**

**SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**

## SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION

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## **SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL RESOLUTION**

The 2005 Bonds are the ninth series of bonds issued by the Corporation under the General Resolution and are issued as Senior Lien Bonds. For additional information concerning Outstanding debt of the Corporation *see "THE CORPORATION – Corporation Debt Outstanding"* above. The 2005 Bonds are issued under the 2005 Series Resolution adopted pursuant to the authority of the General Resolution which contains various covenants and security provisions, certain of which are summarized below. Reference should be made to the General Resolution for a full and complete statement of its provisions.

### **Creation of Funds and Accounts**

The General Resolution creates the following Funds and Accounts:

- (1) Program Fund
  - Loan Account
    - Tax-Exempt Bond Subaccount
    - Taxable Bond Subaccount
  - Cost of Issuance Account
- (2) General Revenue Fund
- (3) Debt Service Fund
  - Interest Account
  - Principal Account
- (4) Debt Service Reserve Fund
  - Senior Lien Account
  - Subordinate Lien Account
- (5) Operating Fund
- (6) Rebate Fund

Each of the above Funds and Accounts (except for the Rebate Fund), and any other Accounts which may be established within such Funds from time to time, shall be held and maintained by the Trustee pursuant to the provisions of the General Resolution and are at all times pledged for the payment of the principal of and interest on the Bonds.

### **Application of Initial Proceeds of Bonds**

The proceeds, exclusive of accrued and capitalized interest, if any, of any series of Bonds after the deposit, if any, to meet a Debt Service Reserve Requirement, are required to be deposited in the Program Fund as specified in the applicable Series Resolution. Accrued and capitalized interest, if any, received upon delivery of the Bonds must be deposited in the Interest Account within the Debt Service Fund. Amounts are required to be deposited or maintained in the Debt Service Reserve Fund.

Under the General Resolution, the Trustee is required to establish within the Program Fund a Cost of Issuance Account and a Loan Account. From the proceeds of each series, there will be deposited in the Cost of Issuance Account such costs of issuing the series of Bonds for the payment of which provision is not otherwise made. The Trustee will withdraw moneys from the Cost of Issuance Account from time to time for the purpose of paying such costs of issuance, and moneys so withdrawn and paid shall be free and clear of the pledge created by the General Resolution.

After deposits required with respect to the Debt Service Reserve Requirement and costs of issuance, the remainder of the proceeds of any series of Bonds will be deposited in the Loan Account of the Program Fund. Moneys in the Loan Account will be applied for the financing of Guaranteed Loans or, as applicable, Alternative Loans under the Student Loan Finance Program.

### **Monthly Distributions of Moneys from the General Revenue Fund**

The following provides a general description of the provisions of the General Resolution with respect to periodic determinations of the amounts required to be deposited in the various Funds and Accounts established by the General Resolution or other uses of moneys constituting Pledged Assets in the order of priority as to which such moneys are to be applied.

#### **Debt Service Fund - Interest Account--Senior Lien Bonds**

The first priority for the monthly transfers of moneys from the General Revenue Fund is a deposit to the Interest Account of the Debt Service Fund, and segregated therein for Senior Lien Bonds. The deposit shall be in an amount such that, if the same amount is so deposited in the Interest Account from the same source on the same day of each succeeding calendar month thereafter prior to the next Interest Payment Date, the aggregate of the amounts so paid and credited to the Interest Account, when added to any amount on deposit in the Interest Account on the day of the calculation and segregated therein for such purpose, would on such Interest Payment Date be equal to the interest on all Outstanding Senior Lien Bonds accrued and unpaid as of such date. In the event that different Interest Payment Dates are established in respect of different Series of Senior Lien Bonds, deposits in the Interest Account shall be made in accordance with the foregoing calculation applied separately to each such different Series. In the event that amounts representing capitalized interest have been deposited in the Interest Account from the proceeds of a Series of Senior Lien Bonds, such deposit shall, to the extent thereof, be deemed to be in lieu of deposits otherwise required to be made into the Interest Account for the succeeding calendar months in order to provide for the payment of interest on Senior Lien Bonds of such Series.

#### **Debt Service Fund - Principal Account--Senior Lien Bonds**

The second priority for the monthly transfers from the General Revenue Fund is a deposit to the Principal Account of the Debt Service Fund whenever a principal payment of Senior Lien Bonds is to fall due within one year of the date of transfer. The deposit shall be in an amount such that, if the same amount is so deposited in the Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next date upon which a Principal Installment of Senior Lien Bonds is due, the aggregate of the amounts so deposited, when added to the amounts already on deposit in the Principal Account on the day of calculation, would on such Principal Installment Date be equal to the amount of all unpaid Principal Installments as of such date. In the event that different dates (within one year of the date of transfer) on which Principal Installments fall due are established in respect of different Series of Senior Lien Bonds, deposits in the Principal Account shall be made in accordance with the foregoing calculation applied separately to each such different Series. There shall also be deposited to the Principal Account, whenever Senior Lien Bonds have been duly called for redemption and such redemption is to occur within thirty (30) days, an amount equal to the principal amount of Senior Lien Bonds to be redeemed on such redemption date.

Debt Service Fund - Interest Account--Subordinate Lien Bonds

The third priority for the monthly transfers of moneys from the General Revenue Fund is a deposit to the Interest Account of the Debt Service Fund, and segregated therein for Subordinate Lien Bonds. The deposit shall be in an amount such that, if the same amount is so deposited in the Interest Account from the same source on the same day for each succeeding calendar month prior to the next Interest Payment Date, the aggregate of the amounts so deposited, when added to any amount on deposit in the Interest Account on the day of the calculation and segregated therein for such purpose, would equal the interest on all Outstanding Subordinate Lien Bonds accrued and unpaid as of such date. In the event that different Interest Payment Dates are established in respect of different Series of Subordinate Lien Bonds, deposits in the Interest Account shall be made in accordance with the foregoing calculation applied separately to each such different Series. In the event that amounts representing capitalized interest have been deposited in the Interest Account from the proceeds of a Series of Subordinate Lien Bonds, such deposit shall be deemed to be in lieu of deposits otherwise required to be made into the Interest Account for the succeeding calendar months in order to provide for the payment of interest on Subordinate Lien Bonds of such Series, to the extent that such amount representing capitalized interest equals the aggregate of such deposits otherwise required to be made.

Debt Service Fund - Principal Account--Subordinate Lien Bonds

The fourth priority for the monthly transfers from the General Revenue Fund is a deposit to the Principal Account of the Debt Service Fund, whenever a Principal Installment of Subordinate Lien Bonds is to fall due within one year of the date of transfer. The deposit shall be in an amount such that, if the same amount is so deposited in the Principal Account from the same source on the same day of each succeeding calendar month thereafter prior to the next date on which a Principal Installment is due, the aggregate of the amounts so deposited, when added to any amount on deposit in the Principal Account on the day of calculation, would on such Principal Installment Date equal all unpaid Principal Installments as of such date. In the event that different dates (within one year of the date of transfer) on which Principal Installments fall due are established in respect of different Series of Subordinate Lien Bonds, deposits in the Principal Account shall be made in accordance with the foregoing calculation applied separately to each such different Series. There shall also be deposited to the Principal Account, whenever Subordinate Lien Bonds have been duly called for redemption and such redemption is to occur within thirty (30) days, an amount equal to the principal amount of Subordinate Lien Bonds to be redeemed on such redemption date.

Operating Fund

The fifth priority for the monthly transfers from the General Revenue Fund is a deposit to the Operating Fund of an amount that, when added to the amount therein, will equal the Operating Fund Requirement as directed by the Corporation. The Operating Fund Requirement as of any date equals (i) the Monthly Requirements for Operating Costs of the Corporation for the current month and (ii) such additional amount as the Corporation deems appropriate, but in no event more than four (4) months of operations in total as reflected in the Annual Budget.

Moneys in the Operating Fund are to be utilized to pay Operating Costs (and when so paid out are free and clear of the pledge created by the General Resolution), except that moneys remaining within the Operating Fund at any time must first be utilized to pay principal of and interest on the Bonds to the extent that there would otherwise be a default in payment. Operating Costs of the Corporation include, but are not limited to, all of the Corporation's expenses in administering the Student Loan Finance Program, fees and expenses of the Paying Agents and other agents or functionaries with respect to the Bonds, as well as Costs of Issuance other than those paid from Bond proceeds.

Debt Service Reserve Fund - Senior Lien Account

The sixth priority for the monthly transfers from the General Revenue Fund is a deposit to the Senior Lien Account of the Debt Service Reserve Fund so that it contains an amount at least equal to the Debt Service Reserve Requirement for all Senior Lien Bonds then Outstanding.

Debt Service Reserve Fund - Subordinate Lien Account

The seventh priority for the monthly transfers from the General Revenue Fund is a deposit to the Subordinate Lien Account of the Debt Service Reserve Fund so that it contains an amount at least equal to the Debt Service Reserve Requirement for all Subordinate Lien Bonds then Outstanding.

Debt Service Fund - Principal Account (For Principal Reduction Payments on Senior Lien Bonds)

The eighth priority for the monthly transfers from the General Revenue Fund is a deposit to the Principal Account of the Debt Service Fund. The deposit shall be in an amount such that, if available amounts are so paid and credited to the Principal Account from the same source on the same day of each succeeding calendar month thereafter, then prior to the next day upon which a Principal Reduction Payment is to be made of Principal of a series of Senior Lien Bonds prior to maturity to the extent Revenues Available for Debt Service are sufficient for such purpose (as set forth in an applicable Series Resolution), the aggregate of the amount so deposited, when added to any amount on deposit in the Principal Account on the day of calculation and segregated therein for such purpose, would be on such date equal to, but not in excess of, the amount of all accrued and unpaid Principal Reduction Payments for such Senior Lien Bonds as of such date; provided, that if Revenues Available for Debt Service are not sufficient to pay Principal Reduction Payments with respect to each Class and Series, then payments shall be made in the order of issuance by Series and to the earliest maturities within a Series; provided, further, that such payments with respect to Bonds issued after May 4, 1999, shall be made on a *pro rata* basis based upon the amount of the Principal Reduction Payments due, as adjusted. The amount of any such insufficiency shall be added to such deposit requirement for the succeeding month.

Debt Service Fund - Principal Account (For Principal Reduction Payments on Subordinate Lien Bonds)

The ninth priority for the monthly transfers from the General Revenue Fund is a deposit to the Principal Account of the Debt Service Fund. The deposit shall be in an amount such that, if available amounts are so paid and credited to the Principal Account from the same source on the same day of each succeeding calendar month thereafter, then prior to the next day upon which a Principal Reduction Payment is to be made of Principal of a series of Subordinate Lien Bonds prior to maturity to the extent Revenues Available for Debt Service are sufficient for such purpose (as set forth in an applicable Series Resolution), the aggregate of the amount so deposited, when added to any amount on deposit in the Principal Account on the day of calculation and segregated therein for such purpose, would be on such date equal to, but not in excess of, the amount of all accrued and unpaid Principal Reduction Payments for such Subordinate Lien Bonds as of such date; provided, that if Revenues Available for Debt Service are not sufficient to pay Principal Reduction Payments with respect to each Class and Series, then payments shall be made in the order of issuance by Series and to the earliest maturities within a Series; provided, further, that such payments with respect to Bonds issued after May 4, 1999, shall be made on a *pro rata* basis based upon the amount of the Principal Reduction Payments due, as adjusted. The amount of any such insufficiency shall be added to such deposit requirement for the succeeding month.

Disbursements to the Corporation

The tenth priority for the monthly transfers from the General Revenue Fund is, to the extent that the sum of the outstanding principal amount of, and accrued interest on, the Education Loans (as certified by the Corporation on the first day of each calendar month) and all amounts held in the funds and accounts thereunder, the value of which shall be calculated in accordance with the General Resolution, other than the Operating Fund and the Rebate Fund, will exceed (i) 112% of the principal amount of all Outstanding Senior Lien Bonds and (ii) 103% of the principal amount of all Outstanding Bonds, such excess may be paid to the Corporation to the extent requested by the Corporation.

Loan Account or Principal Account - As Directed By the Corporation

The eleventh priority for the monthly transfers from the General Revenue Fund provides that the balance, if any, remaining after all of the preceding priority transfers have been made, shall be transferred at the direction of the Corporation to the Loan Account (up to the amount authorized in an applicable Series Resolution) or to the Principal Account to effect a redemption of Bonds or to make Principal Reduction Payments (as directed in an applicable Series Resolution).

The 2005 Series Resolution with respect to the 2005 Bonds provides that no such transfer will be made to the Loan Account after June 30, 2007, unless such date is extended by each Rating Agency. If no such direction is given by the Corporation or if such a direction is given and transferred moneys are not used to acquire Education Loans within six (6) months of the date of transfer, the Trustee will transfer such balance or unapplied balance, as applicable, to the Principal Account of the Debt Service Fund to effect a retirement of Bonds subject to retirement, either by redemption, Principal Reduction Payment or other means.

**Rebate Fund**

Within ninety (90) days after the anniversary date of each series of Bonds issued with the intention that the interest thereon be excluded from the gross income of the owners thereof for purposes of regular federal income taxation, the Corporation is required by the terms of the General Resolution to file with the Trustee a report setting forth the "Rebate Amount" as defined in the General Resolution. All such Rebate Amounts must be deposited into the Rebate Fund. Moneys in the Rebate Fund, including investment earnings thereon, if any, are not subject to the pledge of the General Resolution and may be applied solely to pay amounts owed to the United States pursuant to Section 148(f) of the Internal Revenue Code of 1986, as amended, or the comparable provisions of any applicable successor Code or law. As of the date of this Offering Memorandum, the Corporation has not issued any series of Bonds, the interest on which would be excludable from the gross income of the owners of such bonds.

**Investment of Funds and Accounts**

The General Resolution requires or permits investments of moneys in each Fund and Account, consistent with the required uses of such moneys, in Investment Obligations. *See EXHIBIT I –, "GLOSSARY OF CERTAIN DEFINED TERMS FROM THE GENERAL AND 2005 SERIES RESOLUTIONS,"* for the definition of the term "Investment Obligations."

**Conditions Precedent to Authentication and Delivery of a Series of Bonds**

The Trustee may authenticate and deliver Bonds under the General Resolution by or on behalf of the Corporation only upon the Trustee's receipt of:

- (i) a copy of the Series Resolution authorizing the Series, certified by an Authorized Officer of the Corporation;
- (ii) a written order of the Corporation as to the delivery of such Bonds;
- (iii) a Counsel's Opinion stating that in the opinion of such Counsel:
  - (a) the General Resolution and the Series Resolution have been duly approved by the Corporation;
  - (b) the principal amount of the Bonds to be issued, together with the principal amount of Bonds, notes and other obligations of the Corporation theretofore issued, will not exceed in aggregate principal amount any limitation thereon imposed by law;
  - (c) the General Resolution and the Series Resolution are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms, except as their enforcement may be limited by applicable laws relating to the enforcement of creditors' rights generally;

- (d) the General Resolution creates the valid pledge which it purports to create subject only to the provisions of the General Resolution permitting the application of the Pledged Assets for or to the purposes and on the terms and condition set forth therein; and
  - (e) upon execution, authentication and delivery thereof, the Bonds of such Series will be duly and validly issued and will constitute valid and binding obligations of the Corporation entitled to the benefits of the General Resolution and the applicable Series Resolution;
- (iv) a written order of the Corporation signed by an Authorized Officer, directing the deposit in the Debt Service Reserve Fund of so much (if any) of (a) the proceeds of the Bonds to be issued, upon their issuance, sale and delivery or (b) such other funds of the Corporation, so that the aggregate amount then held by the Trustee in such Fund is equal to the Debt Service Reserve Requirement;
  - (v) a Certificate of an Authorized Officer of the Corporation stating that the Corporation is not in default in the performance of any of the covenants, conditions, agreements or provisions contained in the General Resolution or any Series Resolution;
  - (vi) a Certificate of an Authorized Officer of the Corporation setting forth that the anticipated need for Education Loans to be financed from proceeds of Bonds of such Series is such that the amount to be deposited in the Loan Account in connection with the issuance of such Series is reasonably expected to be fully expended to meet such anticipated need;
  - (vii) (a) a Certificate of an Authorized Officer of the Corporation establishing that for the current and each future Fiscal Year until all Bonds to be Outstanding after the delivery of the Bonds of such Series have matured, Revenues Available for Debt Service in each such Fiscal Year are anticipated to be fully sufficient to pay when due principal of, premium, if any, and interest on all Bonds Outstanding, as well as Operating Costs for each such Fiscal Year, which Certificate may rely upon data and computations made on behalf of the Corporation, and (b) written evidence from each Rating Agency that the issuance of such Bonds shall not result in a reduction or withdrawal of the then current rating on any Bonds Outstanding;
  - (viii) the amount of the proceeds of the Series to be deposited in any Fund or Account and such further documents, moneys and securities as are required hereby or by the applicable Series Resolution;
  - (ix) evidence of ratings, if any, by each Rating Agency and confirmation of ratings on all Bonds Outstanding; and
  - (x) executed UCC-1 financing statements and evidence that appropriate arrangements have been made for the filing of such UCC-1 financing statements.

No additional series of Bonds may be authenticated and issued under the General Resolution unless, in addition to the foregoing requirements, the Corporation provides the Trustee with a certificate to the effect that anticipated Pledged Assets will provide revenues which, together with any other revenues estimated by the Corporation to be available therefor, are at least sufficient to pay in each succeeding Fiscal Year the Debt Service and Operating Costs for such Fiscal Year.

## Issuance of Refunding Bonds

One or more Series of Refunding Bonds may be authenticated and delivered upon original issuance to refund all or any Bonds Outstanding under the General Resolution or under another resolution of the Corporation. Refunding Bonds shall be issued in a principal amount sufficient, together with other moneys or securities determined by the Corporation to be available therefor, if any, to accomplish such refunding and to make such deposits as are required by the provisions of the Act, this Section and of the Series Resolution authorizing such Series of Refunding Bonds.

Such Refunding Bonds may be authenticated and delivered only upon receipt by the Trustee of (in addition to the receipt by it of the documents required for the issuance of any Bonds as set forth immediately above):

- (i) except in the case of Bonds to be paid at their scheduled maturity, irrevocable instructions to the Trustee, satisfactory to it, to give due notice of redemption of all the Bonds to be redeemed from any of the proceeds of such Series on the Redemption Date or Dates specified in such instructions;
- (ii) either:
  - (a) moneys in an amount sufficient, without any investment thereof, to effect payment of principal or the applicable Redemption Price of the Bonds to be refunded, together with interest due or to become due on such Bonds to maturity or such Redemption Date, which moneys shall either be held by the Trustee or any one or more of the Paying Agents in a segregated trust account irrevocably in trust for and assigned to the respective Holders of Outstanding Bonds being refunded, or
  - (b) Defeasance Obligations sufficient to comply with the provisions of the General Resolution, and any moneys required pursuant to the applicable section of the General Resolution (with respect to all or any part of the Outstanding Bonds being refunded) which Defeasance Obligations or evidence thereof and moneys shall be held in a segregated trust account and used only as provided in such section; and
- (iii) a Certificate of an Authorized Officer of the Corporation containing such additional statements as may be reasonably necessary to show compliance with the requirements of this subsection, and the Trustee shall be entitled to rely on such Certificate.

The Trustee shall furnish to the Corporation at the time of delivery of the Refunding Bonds a certificate (which may be based upon a verification report of a certified public accountant) stating that it holds in trust the moneys and/or Defeasance Obligations required to effect such payment in full of the Outstanding Bonds being refunded and accrued interest thereon. Any balance of the proceeds of such Refunding Bonds not required to comply with the foregoing provisions of (ii)(a) or (b) shall be deposited in such funds or accounts as shall be specified in the Series Resolution authorizing such Series of Refunding Bonds.

## **Certain Covenants of the Corporation**

The Corporation has covenanted in the General Resolution, among other things, as follows:

*Administration.* The Corporation shall administer, operate and diligently perform all acts and things required to administer, operate and maintain the Student Loan Finance Program in strict compliance with the Act and in such manner as to assure that such Program and the Guaranteed Loans made thereunder will continue to benefit from the federal programs of insurance and reinsurance of Guaranteed Loans, pursuant to the Higher Education Act, or from any other federal statute providing for any such federal program of insurance or reinsurance, and to assure continued entitlement to receive Interest Subsidy Payments and Special Allowance Payments, with respect to all Guaranteed Loans. The Corporation has further covenanted to administer the program for Alternative Loans in accordance with all requirements of the General Resolution.

*Expenditure and Collection.* Only Education Loans eligible to be made or purchased pursuant to the Resolution shall be made or purchased from Bond proceeds, or from funds replaced by Bond proceeds. The Corporation shall collect all principal and interest payments on all Education Loans and all grants, subsidies, donations, insurance payments, Special Allowance Payments and all Default Payments from the Secretary or the Guaranty Agency which relate to Guaranteed Loans. The Corporation shall use due diligence in perfecting all claims for payment related to such Guaranteed Loans from the Secretary and the Guaranty Agency as rapidly as possible. The Corporation will assign to the Guaranty Agency such Guaranteed Loans for payment of guarantee or insurance benefits. The Corporation shall comply with all United States statutes, rules and regulations which apply to the Student Loan Finance Program and to Guaranteed Loans. The Corporation will, at all times, comply with all provisions of the General Resolution related to the Alternative Loans.

*Enforcement.* The Corporation shall diligently, directly or through agents, enforce and take all reasonable steps, actions and proceedings necessary for the enforcement of all terms, covenants and conditions of all Education Loans and all agreements and guarantee and insurance contracts in connection therewith, including the prompt payment of all principal and interest payments and all other amounts due thereunder. The Corporation shall not release the obligations of any student borrower under any Education Loan and shall at all times, to the extent permitted by law, defend, enforce, preserve and protect the rights and privileges of the Bondholders under or with respect to each Education Loan and all agreements in connection therewith. The Corporation shall not consent or agree to or permit any amendment or modification of any Education Loan or agreement in connection therewith which will in any manner materially adversely affect the rights or security of the Bondholders under the General Resolution. However, consistent with the provisions of this paragraph, the Corporation may settle a default or cure a delinquency on any Education Loan on such terms as shall be determined by the Corporation to be prudent, or may grant forbearance or forgiveness of an Education Loan.

*Accounts and Reports.* The Corporation shall keep proper books and accounts in which complete and accurate entries shall be made of all transactions relating to the Student Loan Finance Program, and all Funds and Accounts established by the General Resolution, which shall at all reasonable times be subject to the inspection of the Trustee and the Holders of an aggregate of not less than five percent (5%) in principal amount of Bonds of any Series then Outstanding or their representatives duly authorized in writing. The Corporation shall make an annual report to the Authority. A copy of each such annual report shall be mailed promptly thereafter to each Bondholder who shall have filed his name and address with the Corporation for such purpose.

*Budget.* At least thirty (30) days prior to July 1 of each year, the Corporation shall prepare a preliminary budget covering its fiscal operations in connection with the Student Loan Finance Program and the Student Loan Insurance Program for the succeeding Fiscal Year, which budget shall be open to inspection by the Trustee or any Bondholder. The Corporation shall also prepare a summary of each such preliminary budget and mail a copy, at least fifteen (15) days prior to such July 1, to any Bondholder who shall have filed his name and address with the Corporation for such purpose. By July 1 of each year, the Corporation shall adopt an Annual Budget for its fiscal operations in connection with the Student Loan Finance Program and the Student Loan Insurance Program, covering such fiscal operations for the succeeding Fiscal Year. Such Annual Budget shall be filed with the Trustee, each Rating Agency and such officials of the State as may be required by law. The Annual Budget must set forth at least the estimated Revenues Available for Debt Service, estimated principal and interest due and payable on Bonds during the Fiscal Year and estimated Operating Costs. The Corporation may file with the



Trustee amendments of the Annual Budget for the remainder of the Fiscal Year. Copies of the Annual Budget and any amended Annual Budget shall be available at the offices of the Corporation for inspection by any Bondholder.

*Personnel and Servicing of Student Loan Finance Program.* The Corporation shall at all times cause to be appointed, retained and utilized competent and qualified personnel for the purpose of carrying out the Student Loan Finance Program and shall establish and enforce reasonable rules, regulations, tests and standards governing the employment of such personnel at reasonable compensation, salaries, fees and charges and all persons so employed shall be qualified for their respective positions. Independent contractors may be engaged to perform any such duties upon notice to the Rating Agencies.

*Waiver of Laws.* The Corporation shall not at any time insist upon or plead in any manner whatsoever, or claim or take the benefit or advantage of any stay or extension law now or at any time hereafter in force which may affect the covenants and agreements contained in the General Resolution, any Series or Supplemental Resolution, or the Bonds, and all benefit or advantage of any such law or laws has been expressly waived by the Corporation in the General Resolution.

### **Defaults and Remedies**

Under the General Resolution, each of the following events is an “Event of Default”:

- (1) default by the Corporation in the payment of any installment of interest on the Bonds, when due;
- (2) default by the Corporation in the payment of principal of Bonds as they mature, or the Redemption Price thereof if Bonds have been duly called for redemption;

provided, however, that, while there are any Senior Lien Bonds Outstanding thereunder with respect to both clauses (1) and (2), failure to pay any installment of interest or principal on any Subordinate Lien Bonds (after the Trustee has drawn upon the Debt Service Reserve Fund--Subordinate Lien Account with respect to any interest or principal then due) shall constitute an Event of Default; but such failure shall not give rise to the remedy of acceleration unless there is a corresponding failure to make timely payment of interest or principal on a Senior Lien Bond;

provided, further, that, if (i) on any Interest Payment Date moneys in the Interest Account shall be sufficient to pay an installment of interest, or (ii) if on any Principal Installment Date moneys in the Principal Account shall be sufficient to pay a Principal Installment, then, in either such event, the Trustee shall make the respective payment then due and failure by the Trustee to make such payment shall constitute an Event of Default;

provided, further, that failure to make a Principal Reduction Payment shall not constitute an Event of Default;

- (3) failure or refusal by the Corporation to comply with the provisions of the Act or default in the performance or observance of any other of the covenants, agreements or conditions contained in the Resolution, any Series or Supplemental Resolution or the Bonds, and such failure, refusal or default shall continue for a period of forty-five (45) days after written notice thereof by the Trustee or the Holders of not less than 5% in principal amount of the Outstanding Bonds; provided, however, if any such default shall be such that it can be corrected but cannot be corrected within such period, it shall not constitute an Event of Default if corrective action is instituted by the Corporation within such period and diligently pursued until such default is corrected. The Rating Agencies shall be notified of such event by the Trustee following such 45-day period and each forty-five (45) days thereafter until such default is corrected.

Upon the happening and continuance of any event described in (1) or (2) above, the Trustee, independently, or the Holders of 25% or more in principal amount of Outstanding Bonds, may jointly proceed, in their own names, to protect and enforce their rights by such of the following remedies as they deem most effectual:

- enforce, by mandamus or other suit, action or proceedings at law or in equity, all rights of the Bondholders, including the right to require the Corporation to receive and collect the revenues and other assets, including Pledged Assets, adequate to carry out the covenants and agreements as to, and pledge of, such revenues and assets, and to require the Corporation to carry out any other covenant or agreement with Bondholders and to perform duties under the Act;
- bring suit upon the Bonds;
- require the Corporation by action or suit to account as if it were the trustee of an express trust for the Bondholders;
- enjoin by action or suit any acts or things which may be unlawful or in violation of the rights of the Bondholders;
- except as limited with respect to Subordinate Lien Bonds, declare all Bonds due and payable, and if all defaults shall be cured, then, with the written consent of not less than 25% in principal amount of the Holders of Outstanding Bonds, to annul such declaration and its consequences; and
- in the event that all Bonds are declared due and payable, to sell all Education Loans, Investment Obligations and all other Pledged Assets to the extent necessary to effect their payment.

Upon the happening and continuance of any Event of Default described in (3) above, the Trustee shall have the discretion to do any of the following:

- sell Education Loans if it is determined prior to such sale that the proceeds of such sale are sufficient to pay Bondholders the entire amount of principal of, premium, if any, and interest due; provided, however, that no acceleration of payment shall be declared until the Trustee shall hold sufficient funds to effect such payment;
- sell Education Loans without regard to the sufficiency of proceeds if 100% of the Bondholders direct such sale; or
- continue to pay Debt Service in accordance with the terms of the General Resolution.

The Trustee must give immediate notice to each Rating Agency of any Event of Default under the General Resolution. No Bondholder shall have any right to institute any action except as authorized in the Resolution. Nothing herein contained shall impair the right of any Bondholder to enforce payment of principal of, Redemption Price and interest on his Bonds.

In the event that, upon the happening and continuance of any Event of Default, the funds held by the Trustee and Paying Agents shall be insufficient for the payment of principal and interest then due on the Bonds of all Series then Outstanding, such funds and any other moneys received or collected pursuant to the General Resolution, shall be applied after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of the expenses, liabilities and advances incurred or made by the Trustee, including, but not limited to, the fees and expenses of its counsel and other agents, as follows:

Unless the principal of all of the Bonds shall have become or have been declared due and payable:

First: With respect to Senior Lien Bonds of the highest Class (and then in descending order of Class), to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Second: With respect to Senior Lien Bonds of the highest Class (and then in descending order of Class), to the payment to the persons entitled thereto of the unpaid principal of any such Bonds, and, if the amounts available shall not be sufficient to pay in full all the Senior Lien Bonds, then to the payment thereof ratably, without any discrimination or preference; and

Third: With respect to Subordinate Lien Bonds of the highest Class (and then in descending order of Class), to the payment to the persons entitled thereto of all installments of interest then due in the order of the maturity of such installments and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the persons entitled thereto, without any discrimination or preference; and

Fourth: With respect to Subordinate Lien Bonds of the highest Class (and then in descending order of Class), to the payment to the persons entitled thereto of the unpaid principal of any Bonds, and, if the amounts available shall not be sufficient to pay in full all the Subordinate Lien Bonds, then to the payment thereof ratably, without any discrimination or preference.

If the principal of all of the Bonds shall have become or have been declared due and payable:

First: With respect to the Senior Lien Bonds of the highest Class (and then in descending order of Class), to the payment to the persons entitled thereto of all unpaid principal of any Bonds and of installments of interest then due and, if the amount available shall not be sufficient to pay in full such principal and interest, then to the payment of principal and interest, without any preference or priority, ratably according to the aggregate amounts due, to the persons entitled thereto; and

Second: With respect to the Subordinate Lien Bonds of the highest Class (and then in descending order of Class), to the payment to the persons entitled thereto of all unpaid principal of any Bonds and of installments of interest then due and, if the amount available shall not be sufficient to pay in full such principal and interest, then to the payment of principal and interest, without any preference or priority, ratably according to the aggregate amounts due, to the persons entitled thereto.

In case any proceedings taken on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Corporation, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties herein conferred shall continue as though no such proceeding had been taken.

No remedy conferred upon or reserved to the Trustee or the Holders of the Bonds by the General Resolution is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given thereunder, now or hereafter existing at law or in equity or by statute.

No delay or omission of any Holder of the Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by the General Resolution to the Holders of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

The Trustee shall give to the Bondholders notice of each Event of Default hereunder known to the Trustee within ninety (90) days after knowledge of the occurrence thereof, unless such Event of Default shall have been remedied or cured before the giving of such notice. Each such notice of an Event of Default shall be given by the Trustee by mailing written notice thereof: (1) to all registered Holders of Bonds, as the names and addresses of such Holders appear upon the books for registration and transfer of Bonds as kept by the Trustee; (2) to such Bondholders as have filed their names and addresses with the Trustee for that purpose; and (3) to such other persons as is required by law.

### **Modifications of the General Resolution and Outstanding Bonds**

The Corporation may adopt at any time or from time to time Supplemental Resolutions as shall be substantially consistent with the terms and provisions of the General Resolution and, in the opinion of the Trustee, who may rely upon a Counsel's Opinion, shall not materially and adversely affect the interest of the Bondowners and Holders, for any one or more of the following purposes, and any such Supplemental Resolution shall become effective in accordance with its terms upon the filing with the Trustee of a copy thereof certified by an Authorized Officer:

- to add additional covenants and agreements of the Corporation for the purpose of further securing the payment of the Bonds, provided such additional covenants and agreements are not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the Resolution;
- to surrender any right, power or privilege reserved to or conferred upon the Corporation by the terms of the General Resolution, provided, that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Corporation contained in the General Resolution;
- to confirm as further assurance any pledge under and the subjection to any lien, claim or pledge created or to be created by the provisions of the General Resolution; or
- to cure any ambiguity or defect or inconsistent provision in the General Resolution or to insert such provisions clarifying matters or questions arising under the General Resolution as are necessary or desirable in the event any such modification is not contrary to or inconsistent with the General Resolution as theretofore in effect.

The provisions of the General Resolution may also be modified or amended at any time or from time to time by a Supplemental Resolution, subject to the consent of Bondholders in accordance with and subject to the applicable provisions of the General Resolution, such Supplemental Resolution to become effective upon the filing with the Trustee of a copy thereof certified by an Authorized Officer.

The General Resolution shall not be modified or amended in any respect except in accordance with and subject to its applicable provisions. However, nothing contained in the General Resolution shall affect or limit the rights or obligations of the Corporation to adopt, make, do, execute or deliver any resolution, act or other instrument pursuant to applicable provisions of the General Resolution, or the right or obligation of the Corporation to execute and deliver to the Trustee or any Paying Agent any instrument elsewhere in the General Resolution provided or permitted to be delivered to the Trustee or any Paying Agent.

A copy of every Supplemental Resolution approved by the Corporation, when filed with the Trustee, shall be accompanied by a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted in accordance with the provisions of the General Resolution, is authorized or permitted thereby and is valid and binding upon the Corporation and enforceable in accordance with its terms. Each such

Supplemental Resolution shall also be filed with each Rating Agency and shall become effective upon written request for and confirmation of ratings on all Bonds Outstanding by each Rating Agency.

No Supplemental Resolution changing, amending or modifying any of the rights or obligations of the Trustee or of any Paying Agent may be adopted by the Corporation without the written consent of the Trustee or Paying Agent affected thereby.

Any modification or amendment of the General Resolution and of the rights and obligations of the Corporation and of the Holders of the Bonds thereunder, in any particular, may be made by a Supplemental Resolution, with the written consent given as therein provided, of the Holders of at least a majority in principal amount of the Bonds Outstanding of each affected Class at the time such consent is given. Unless with the unanimous written consent of all Bondholders, however, no such amendment shall:

- permit a change in the terms of redemption or maturity of the principal of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount thereof or the rate of interest thereon,
- reduce the percentage of Bonds the consent of the Holders of which is required to effect such amendment, or
- change the existing preferences or priorities of Bonds over any other Bonds or create any new preferences or priorities.

A copy of such Supplemental Resolution (or brief summary thereof or reference thereto) together with a request to Bondholders for their consent thereto, shall promptly after adoption be mailed by the Corporation to Bondholders (but failure to mail such copy and request shall not affect the validity of the Supplemental Resolution when consented to as in this Section provided). Such Supplemental Resolution shall not be effective unless and until

- (A) there shall have been filed with the Trustee
  - (i) the written consents of Holders of the required percentage of Outstanding Bonds,
  - (ii) a Counsel's Opinion stating that such Supplemental Resolution has been duly and lawfully adopted and filed by the Corporation in accordance with the provisions of the General Resolution, is authorized or permitted by the General Resolution and is valid and binding upon the Corporation and enforceable in accordance with its terms, and
- (B) a notice shall have been mailed as required by the General Resolution.

Each such consent shall be effective only if accompanied by proof of the holding at the date of such consent of the Bonds with respect to which such consent is given. A certificate or certificates filed with the Trustee that the Trustee has examined such proof and that such proof is sufficient in accordance the requirements of the General Resolution shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the Holder of the Bonds giving such consent and, anything in the General Resolution to the contrary notwithstanding, upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof), unless such consent is revoked in writing by the Holder of such Bonds giving such consent or a subsequent Holder thereof by filing such revocation with the Trustee, prior to the time when the written statement of the Trustee hereinafter in this Section provided for is filed. The fact that a consent has not been revoked may likewise be proved by a certificate of the Trustee to the effect that no revocation thereof is on file with the Trustee. At any time after the Holders of the required percentage of Bonds shall have filed their consents to the Supplemental Resolution, the Trustee shall make and file with the Corporation a written statement that the Holders of such required percentage of Bonds have filed such consents. Such written statement shall be conclusive that such consents have been so filed. At any time thereafter, notice, stating in substance that the Supplemental Resolution

(which may be referred to as a Supplemental Resolution adopted by the Corporation on a stated date, a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentages of Bonds and will be effective as provided in this Section shall be given to Bondholders by the Corporation by mailing such notice to Bondholders as provided in the General Resolution (but failure to mail such notice shall not prevent such Supplemental Resolution from becoming effective and binding as this Section provides). The Corporation shall file with the Trustee proof of the mailing thereof.

Such Supplemental Resolution making such amendment or modification shall be deemed conclusively binding upon the Corporation, the Trustee, each Paying Agent and the Holders of all Bonds at the expiration of thirty (30) days after the filing with the Trustee of the proof of the mailing of such last-mentioned notice, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Resolution in a legal action or equitable proceeding for such purpose commenced within such thirty (30) day period; provided, however, that the Corporation, the Trustee, and any Paying Agent during such thirty (30) day period and any such further period during which any such action or proceeding may be pending shall be entitled in their reasonable discretion to take such action, or to refrain from taking such action, with respect to such Supplemental Resolution as they may deem expedient.

Notwithstanding anything contained in the foregoing provisions, the rights and obligations of the Corporation and of the Holders of the Bonds and the terms and provisions of the Bonds or of the General Resolution may be modified or amended in any respect upon the adoption of a Supplemental Resolution by the Corporation and the Consent of the Holders of all of the Bonds then Outstanding; provided, however, that no such modification or amendment shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto in addition to the consent of the Corporation and of the Bondholders.

Unless the Corporation owns all of the Bonds Outstanding, Bonds, if any, owned or held by or for the account of the Corporation shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in the General Resolution, and the Corporation shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in the General Resolution.

### **Issuance of Notes, Additional Bonds and Other Obligations**

The Corporation may, at any time or from time to time, issue notes, bonds and other obligations having such terms and provisions and secured by a pledge of such moneys or other assets of the Corporation as the resolution authorizing the same shall provide; provided, however, that any pledge to the holders of any such notes, bonds or other obligations, of any Pledged Assets, Fund or Account or other moneys or assets of the Corporation pledged or assigned under the General Resolution shall be, and shall be expressed to be, subordinate in all respects to the pledge or assignment created under the General Resolution, and subject in all respects to the provisions of the General Resolution concerning the permitted application of such pledged moneys and assets. It is expressly understood that the Corporation may make or otherwise finance student loans other than Education Loans, provided, that such program does not in any way jeopardize or impair the pledge or assignment of any revenues or other assets for the benefit of the Bondholders under the General Resolution, or any rights of the Bondholders under the General Resolution, and provided that a Counsel's Opinion to such effect, detailing the nature of such program, has been delivered to the Trustee.

For such time as the 2005 Bonds remain Outstanding, the Corporation will not issue additional bonds under the General Resolution if such issuance will cause the sum of (i) the outstanding principal amount of, and accrued interest on, the Education Loans (as certified by the Corporation on the first day of each calendar month) and (ii) all amounts held in the funds and accounts thereunder, the value of which shall be calculated in accordance with the General Resolution, other than the Operating Fund and the Rebate Fund, to fall below 103% of the principal amount of, and accrued interest on, the Outstanding Senior Lien Bonds. If such quotient is less than 103% prior to the issuance of Additional Bonds, the Corporation will not issue Additional Bonds under the Resolution if such issuance will cause such percentage to fall further.

## Defeasance

If the Corporation pays or causes to be paid, or there shall otherwise be paid, to the Holders of all Bonds the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, then the pledge of any Pledged Assets and other moneys and property pledged under the General Resolution and all covenants, agreements, and other obligations of the Corporation to the Bondholders, shall thereupon cease, terminate and become void and be discharged and satisfied. In such event, the Trustee shall cause an accounting for such period or periods as shall be requested by the Corporation to be prepared and filed with the Corporation and, upon the request of the Corporation, shall execute and deliver to the Corporation all such instruments as may be desirable to evidence such discharge and satisfaction. Further, the Fiduciaries shall pay over or deliver to the Corporation all moneys or securities held by them pursuant to the General Resolution which are not required for the payment of principal or Redemption Price, if applicable, on the Bonds.

If the Corporation pays or causes to be paid, or there shall otherwise be paid, to the Holders of all Outstanding Bonds of a particular Series, the principal or Redemption Price, if applicable, and interest due or to become due thereon, at the times and in the manner stipulated therein and in the General Resolution, such Bonds shall cease to be entitled to any lien, benefit or security under the General Resolution and all covenants, agreements and obligations of the Corporation to the Holders of such Bonds shall thereupon cease, terminate and become void and be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall have been set aside and shall be held in trust by the Fiduciaries (through deposit by the Corporation of funds for such payment or redemption or otherwise) shall, at the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the General Resolution. All Outstanding Bonds shall, prior to the maturity or Redemption Date thereof, be deemed to have been paid within the meaning and with the effect expressed in the General Resolution if:

- (a) in case any of such Bonds are to be redeemed on any date prior to their maturity, the Corporation shall have given to the Trustee in form satisfactory to the Trustee irrevocable instructions to mail notice of redemption on such date of such Bonds,
- (b) there shall have been deposited with, or credited to the account (at a Federal Reserve Bank) of, the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations the principal of and the interest on which when due and without reinvestment will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if any, and interest due and to become due on such Bonds on and prior to the Redemption Date or maturity date thereof, as the case may be; provided, that except in the event of a full cash defeasance or a current refunding of less than ninety (90) days to maturity or Redemption Date, the sufficiency of such moneys or investments must be confirmed to the Corporation in a report of an independent certified public accountant, and
- (c) in the event such Bonds are not by their terms subject to redemption within the next succeeding sixty (60) days, the Corporation shall have given the Trustee in form satisfactory to the Trustee irrevocable instructions to mail, as soon as practicable, a notice to the Holders of such Bonds that the deposit required by (b) above has been made with the Trustee and that such Bonds are deemed to have been paid in accordance with the General Resolution and stating such maturity or Redemption Date upon which moneys are to be available for the payment of the principal or Redemption Price, if any, on such Bonds.

Neither Defeasance Obligations nor moneys deposited with the Trustee pursuant to the General Resolution nor principal or interest payments on any such Defeasance Obligations shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal or Redemption Price, if any, and interest on such Bonds; provided, that any cash received from such principal or interest payments on such Defeasance Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in Defeasance Obligations maturing at times and in amounts sufficient to pay when due

the principal or Redemption Price, if any, and interest to become due on such Bonds on and prior to such Redemption Date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Corporation, as received by the Trustee, free and clear of any trust, lien or pledge.

If, through the deposit of moneys by the Corporation or otherwise, the Fiduciaries shall hold, pursuant to the General Resolution, moneys sufficient to pay the principal and interest to maturity on all Outstanding Bonds or, in the case of Bonds in respect of which the Corporation shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such Redemption Date, then at the request of the Corporation all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or redemption of Outstanding Bonds.



**EXHIBIT IV**

**CERTAIN FINANCIAL INFORMATION WITH  
RESPECT TO THE CORPORATION**

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SOUTH CAROLINA STUDENT LOAN CORPORATION

FINANCIAL AND COMPLIANCE REPORT

JUNE 30, 2004

SOUTH CAROLINA STUDENT LOAN CORPORATION

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**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
South Carolina Student Loan Corporation  
Columbia, South Carolina

We have audited the accompanying statement of financial position of South Carolina Student Loan Corporation as of June 30, 2004, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2003 financial statements and, in our report dated August 28, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of South Carolina Student Loan Corporation as of June 30, 2004 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America. In accordance with *Government Auditing Standards*, we have also issued a report dated August 25, 2004 on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Our audit was made for the purpose of forming an opinion on the financial statements of South Carolina Student Loan Corporation, taken as a whole. The accompanying supplementary information in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards in Schedule 7 is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations", and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Derrick, Stubbs & Stith, LLP*

Columbia, South Carolina  
August 25, 2004

SOUTH CAROLINA STUDENT LOAN CORPORATION  
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2004

(With Comparative Amounts for 2003)

<u>ASSETS</u>	2004			2003
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<u>Current Assets:</u>				
Cash and Cash Equivalents	\$ 12,425,612	\$ 69,475,595	\$ 81,901,207	\$ 158,575,798
Investments	148,186		148,186	77,609
Current Portion of Student Loan Receivables	766,349	275,057,606	275,823,955	190,618,060
Interest Due from Borrowers	568,378	26,069,362	26,637,740	29,614,709
Due from United States Department of Education	39	7,053,878	7,053,917	5,769,507
Due from SC State Education Assistance Authority	99,923	28,708,313	28,808,236	83,175
Accrued Investment Income		78,791	78,791	169,004
Miscellaneous Operating Receivables	806		806	58,376
Prepaid Expenses	30,238		30,238	4,915
Due from (to) Other Funds	6,258	(6,258)		
Total Current Assets	<u>\$ 14,045,789</u>	<u>\$ 406,437,287</u>	<u>\$ 420,483,076</u>	<u>\$ 384,971,153</u>
<u>Investments and Long-Term Receivables:</u>				
Other Student Loan Receivables Less Current Portion	\$ 18,295,877	\$ 1,656,063,700	\$ 1,674,359,577	\$ 1,543,109,259
Teacher Loans Receivable - Net Allowance for Teacher Loan Cancellations of \$ 15,689,234 and Current Portion		5,580,712	5,580,712	6,051,941
Deferred Cost of Issuance of Bonds		3,154,621	3,154,621	3,727,275
Total Investments and Long-Term Receivables	<u>\$ 18,295,877</u>	<u>\$ 1,664,799,033</u>	<u>\$ 1,683,094,910</u>	<u>\$ 1,552,888,475</u>
<u>Property and Equipment:</u>				
Land	\$ 565,000	\$	\$ 565,000	\$
Building	2,431,329		2,431,329	
Furniture and Equipment	2,039,071		2,039,071	1,910,451
Automobiles	41,049		41,049	41,049
Less, Accumulated Depreciation	(1,564,991)		(1,564,991)	(1,612,700)
Net Property and Equipment	<u>\$ 3,511,458</u>	<u>\$ -</u>	<u>\$ 3,511,458</u>	<u>\$ 338,800</u>
Total Assets	<u>\$ 35,853,124</u>	<u>\$ 2,071,236,320</u>	<u>\$ 2,107,089,444</u>	<u>\$ 1,938,198,428</u>

See Notes to Financial Statements.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
STATEMENT OF FINANCIAL POSITION

JUNE 30, 2004

(With Comparative Amounts for 2003)

	2004			2003 Totals Memorandum Only
<u>LIABILITIES AND NET ASSETS</u>	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	
<u>Current Liabilities:</u>				
Current Portion of Notes Payable - Finance Loans	\$	\$ 64,800,000	\$ 64,800,000	\$ 52,000,000
Current Maturities of Bonds Payable		206,241,475	206,241,475	130,363,888
Interest Payable		1,111,826	1,111,826	1,231,485
Accounts Payable	975,637		975,637	1,132,998
Accrued Pension Payable	275,956		275,956	789,079
Compensated Absences	225,189	28,571	253,760	204,074
Due to SC State Education Assistance Authority		8,214,023	8,214,023	6,282,860
Total Current Liabilities	\$ 1,476,782	\$ 280,395,895	\$ 281,872,677	\$ 192,004,384
<u>Long-Term Debt:</u>				
Bonds Payable Less Current Maturities and Bond Premiums and Discounts of \$ 3,961,280	\$	\$ 1,131,810,720	\$ 1,131,810,720	\$ 1,337,519,404
Notes Payable - Finance Loans Less Current Maturities		458,749,392	458,749,392	209,072,774
Total Long-Term Debt	\$ -	\$ 1,590,560,112	\$ 1,590,560,112	\$ 1,546,592,178
Total Liabilities	\$ 1,476,782	\$ 1,870,956,007	\$ 1,872,432,789	\$ 1,738,596,562
<u>Net Assets:</u>				
Temporarily Restricted:				
For Bond Indentures - Current Debt Service	\$	\$ 22,501,568	\$ 22,501,568	\$ 18,251,147
For Bond Indentures		155,319,989	155,319,989	128,954,841
For Teacher Loans		22,458,756	22,458,756	22,367,293
Total Temporarily Restricted	\$	\$ 200,280,313	\$ 200,280,313	\$ 169,573,281
Unrestricted	34,376,342		34,376,342	30,028,585
Total Net Assets	\$ 34,376,342	\$ 200,280,313	\$ 234,656,655	\$ 199,601,866
Total Liabilities and Net Assets	\$ 35,853,124	\$ 2,071,236,320	\$ 2,107,089,444	\$ 1,938,198,428

See Notes to Financial Statements.

## EXHIBIT B

SOUTH CAROLINA STUDENT LOAN CORPORATION  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004  
(With Comparative Amounts for 2003)

	2004			2003 Totals Memorandum Only
	Unrestricted	Temporarily Restricted	Total	
<u>Revenue and Other Support:</u>				
Income from United States Department of Education:				
Student Loan Interest - Subsidized	\$ 13,316	\$ 14,455,966	\$ 14,469,282	\$ 16,259,325
Special Allowances	27	12,859,531	12,859,558	11,032,458
Student Loan Interest - Non Subsidized	768,073	59,291,982	60,060,055	62,154,470
Investment Income	112,746	1,382,356	1,495,102	2,347,600
Unrealized Gain (Loss) on Investments	70,577	(192,154)	(121,577)	(121,630)
Late Charges	2,814	873,531	876,345	712,563
Miscellaneous Payments of Student Loans	(16)	9,305	9,289	4,370
Premium on Sale of Loans				1,099
State Appropriations - Department of Education		4,377,048	4,377,048	4,584,264
Building Rental Income	52,005		52,005	
Remittance from SC State Education Assistance Authority for Operating Cost	3,901,624	2,144,391	6,046,015	5,615,073
Net Assets Released from Restrictions	64,494,924	(64,494,924)		
Total Revenue and Support	\$ 69,416,090	\$ 30,707,032	\$ 100,123,122	\$ 102,589,592
<u>Expenses:</u>				
Personnel	\$ 5,737,232	\$	\$ 5,737,232	\$ 5,475,711
Contractual Services	680,454		680,454	497,156
General Operating	1,762,729		1,762,729	1,764,810
Interest on Debt	17,927,494		17,927,494	21,560,363
TLP Cancellations	5,573,014		5,573,014	5,502,449
Amortization of Deferred Cost of Bond Issuance	1,578,864		1,578,864	1,310,920
Payments to SC State Education Assistance Authority for Student				
Loan Income	5,045,972		5,045,972	8,986,980
Lender Origination Fees	8,779,508		8,779,508	6,502,476
Reinsurance Expense	120,271		120,271	169,175
Borrower Incentives	15,485,920		15,485,920	14,786,516
State Recall of Funds				3,278,710
Broker Dealer Fees	1,856,612		1,856,612	999,986
Building Rental Expenses	111,762		111,762	
Other	408,501		408,501	279,878
Total Expenses	\$ 65,068,333	\$ -	\$ 65,068,333	\$ 71,115,130
<u>Change in Net Assets</u>	\$ 4,347,757	\$ 30,707,032	\$ 35,054,789	\$ 31,474,462
<u>Net Assets</u>				
Beginning	30,028,585	169,573,281	199,601,866	168,127,404
Ending	\$ 34,376,342	\$ 200,280,313	\$ 234,656,655	\$ 199,601,866

See Notes to Financial Statements.



SOUTH CAROLINA STUDENT LOAN CORPORATION  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2004  
(With Comparative Amounts for 2003)

	2004			2003
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<u>Cash Flows from Operating Activities:</u>				
Change in Net Assets	\$ 4,347,757	\$ 30,707,032	\$ 35,054,789	\$ 31,474,462
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:				
Depreciation	161,774		161,774	162,351
Amortization of Premiums and Discounts on Bonds Payable		532,791	532,791	332,554
Amortization of Cost of Bond Issuance		1,046,072	1,046,072	978,366
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in Due from Department of Education	15,461	(1,299,871)	(1,284,410)	48,116
(Increase) Decrease in Due from SCSEAA	(69,641)	(28,655,420)	(28,725,061)	20,103,840
(Increase) Decrease in Interest Due from Borrowers	98,414	2,878,555	2,976,969	3,163,197
(Increase) Decrease in Accrued Investment Income	3,636	86,577	90,213	144,020
(Increase) Decrease in Miscellaneous Receivables	57,570		57,570	(744)
(Increase) Decrease in Prepaid Expenses	(25,323)		(25,323)	34,000
Increase (Decrease) in Interest Payable		(119,659)	(119,659)	(589,627)
Increase (Decrease) in Accounts Payable	(133,168)	(24,193)	(157,361)	699,455
Increase (Decrease) in Accrued Pension Expense	(489,451)	(23,672)	(513,123)	149,213
Increase (Decrease) in Compensated Absences	44,957	4,729	49,686	(43,561)
Increase (Decrease) in Due to SCSEAA	(1,429,855)	3,361,018	1,931,163	3,153,119
Due to (from) Other funds	(13,662,124)	13,662,124		
Net Cash Provided by Operating Activities	\$ (11,079,993)	\$ 22,156,083	\$ 11,076,090	\$ 59,808,761
<u>Cash Flows from Investing Activities:</u>				
Purchase of Property and Equipment	\$ (3,334,432)	\$	\$ (3,334,432)	\$ (281,894)
Purchase and Issuance of Student Loans	(3,074,406)	(723,977,243)	(727,051,649)	(833,059,027)
Principal Payments on Student Loans	5,482,523	500,011,128	505,493,651	674,153,682
Teacher Loan Cancellations		5,573,014	5,573,014	5,502,449
Unrealized (Gain) Loss on Investments	(70,577)		(70,577)	121,698
Net Cash (Used in) Investing Activities	\$ (996,892)	\$ (218,393,101)	\$ (219,389,993)	\$ (153,563,092)

See Notes to Financial Statements.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2004  
(With Comparative Amounts for 2003)

	2004			2003
	Unrestricted	Temporarily Restricted	Total	Totals Memorandum Only
<u>Cash Flows from Financing Activities:</u>				
Proceeds from Financing Loans	\$	\$ 648,162,256	\$ 648,162,256	\$ 526,016,988
Payments on Financing Loans		(385,685,638)	(385,685,638)	(573,542,727)
Proceeds from Issuance of Bonds				275,000,000
Payments of Bonds		(130,363,888)	(130,363,888)	(113,334,354)
Payment of Costs of Bond Issuance		(473,418)	(473,418)	(932,604)
Net Cash Provided by Financing Activities	\$ -	\$ 131,639,312	\$ 131,639,312	\$ 113,207,303
<u>Net Increase (Decrease) in Cash and Cash Equivalents</u>	\$ (12,076,885)	\$ (64,597,706)	\$ (76,674,591)	\$ 19,452,972
<u>Cash and Cash Equivalents:</u>				
Beginning	24,502,497	134,073,301	158,575,798	139,122,826
Ending	\$ 12,425,612	\$ 69,475,595	\$ 81,901,207	\$ 158,575,798
<u>Supplemental Disclosures of Cash Flow Information:</u>				
Cash Payments for Interest	\$ -	\$ 18,047,153	\$ 18,047,153	\$ 22,149,991
<u>Supplemental Disclosures of Non-Cash Transactions:</u>				
Retirement of Fixed Assets - Investing Activities	\$ 209,483	\$ -	\$ 209,483	\$ 41,532
Write-off of Accumulated Depreciation Related to Retired Assets - Investing Activities	\$ 209,483	\$ -	\$ 209,483	\$ 41,532

See Notes to Financial Statements.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

1. Summary of Significant Accounting Policies:

1.1 Reporting Entity:

The South Carolina Student Loan Corporation (Corporation) was incorporated November 15, 1973 under the Laws of the State of South Carolina. The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. Its corporate goal is to receive, disburse and administer funds exclusively for educational purposes without pecuniary gain or profit to its members and to aid in the fulfillment of the desire and direction of the People of South Carolina in making loans available to students and parents to attend eligible post secondary institutions. Funds from various sources are administered by the Corporation to achieve this goal.

The Corporation administers the operations of the South Carolina State Education Assistance Authority (Authority). The Authority is a body politic and corporate and a public instrumentality of the State of South Carolina. The Authority is part of the State of South Carolina created by Act No. 433 of the Acts and Joint Resolutions of the General Assembly for the year 1971, now codified as Chapter 115, Title 59 of the Code of Laws of South Carolina, 1976 as amended. The Authority is governed by its members, who under the Act are the members of the State Budget and Control Board (Board). The Board consists of five (5) members by virtue of their position in state government. They are the Governor, Treasurer, Comptroller General, Chairman of Senate Finance Committee and Chairman of South Carolina House of Representatives Ways and Means Committee.

The basic, but not the only, criteria for including a component unit in the reporting entity is the governing body's oversight responsibility for such component unit. Financial accountability is the most important element of oversight responsibility. Neither the Authority nor the Corporation is considered a component unit of the other because each is a legally separate organization and not financially accountable to/for the other.

The accompanying financial statements present the financial position, results of operations and cash flows solely of the South Carolina Student Loan Corporation.

1.2 Overall Operating Arrangement:

The Authority, as a guaranty agency, has approved the South Carolina Student Loan Corporation (Corporation) as an eligible lender to administer the Federal Family Education Loan Program. It is the duty of the Corporation to process applications, make student loans and collect principal, interest, fees and penalties on such loans. Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace, and deferred periods by the U.S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower. Also, the U.S. Department of Education pays the Corporation a special allowance on the unpaid principal of the loans which is based on a variable percentage rate.

The Corporation finances these loans using several sources. One source is the issuance of tax-exempt revenue bonds by the Authority. The Corporation, using the proceeds of these bonds as described in Note 7, makes loans. The Corporation remits income on these loans to the Authority as it is received as required by loan agreements.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

1. Summary of Significant Accounting Policies (Continued):

1.2 Overall Operating Arrangement (Continued):

The operations of the Authority are administered by employees of the Corporation. The Authority reimburses the Corporation upon request for the actual operating costs and expenses plus reasonable capital costs incurred in the administration of the loans financed by the Authority's bonds in accordance with a previously approved budget.

Because of the scarcity of tax-exempt private activity bond allocation from the State and because of the yield limitation for loans financed with tax-exempt bonds, the Corporation issued taxable Education Loan Revenue Bonds for the first time in the year ended June 30, 1997.

During the 1984-85 year, the Corporation began administering the Teacher Loan Program (TLP). The TLP is a part of the Education Improvement Act of 1984 passed by the South Carolina General Assembly. The Corporation was named in the Act as the administrator of this program and the funds for operations and for making loans are provided by state appropriations. The intent of the program is to attract, through financial assistance, talented individuals and to encourage them to enter teaching in areas of critical need within the state. Loans are canceled at 20% to 33% per year for each year of teaching in a critical subject and/or location. These loans are repaid by the borrower if the borrower does not teach. TLP loans made for academic years before 1994-95 are guaranteed by the Authority. Loans made for academic years 1994-95 or after are non-guaranteed.

During the 1995-96 year, the Corporation began making and servicing alternative loans through the Palmetto Assistance Loan (PAL) Program. PAL offers supplemental loans for students and parents of students enrolled at least half-time in an eligible school and for fourth year medical students seeking their residency and relocating. These loans are funded from Corporation accumulated unrestricted net assets and tax-exempt bond funds.

1.3 Basis of Accounting:

These statements are prepared on the accrual method of accounting recognizing income when earned regardless of when received and expenses when incurred regardless of when paid.

1.4 Display of Net Assets by Class:

The Corporation adheres to the disclosures and display requirements of the Financial Accounting Standards Board (FASB) as set forth in Statement of Financial Accounting Standards No. 117, "Financial Statements of Not-for-Profit Organizations." SFAS No. 117 establishes standards for external financial reporting by non-profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories: (a) unrestricted net assets, (b) temporarily restricted net assets, and (c) permanently restricted net assets, which are described as follows:

Unrestricted Net Assets - Net assets that are not subject to restrictions. These net assets, including Board designated, are legally unrestricted and can be used in any Corporation activity.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

1. Summary of Significant Accounting Policies (Continued):

1.4 Display of Net Assets by Class (Continued):

Temporarily Restricted Net Assets - Net assets subject to restrictions that will be met either by actions of the Corporation and/or the passage of time. These net assets are made up of guaranteed student loans from various funding sources.

Permanently Restricted Net Assets - Net assets subject to stipulations that must be maintained permanently by the Corporation. The Corporation does not have any such net assets.

1.5 Use of Estimates:

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

1.6 Cash and Cash Equivalents:

For purposes of reporting cash flows, the Corporation considers all certificates of deposit, regardless of maturity, and Treasury Bills, commercial paper and money market funds, including those that are classified as restricted assets, with a maturity of three months or less, to be cash equivalents.

1.7 Investments:

Investments are valued at market value. Realized and unrealized gains and losses on sale of investments are determined based on the cost of investments.

1.8 Property and Equipment:

Property and Equipment costing over \$ 5,000 are capitalized at cost when purchased. Depreciation has been provided using the straight-line method over useful lives of three to ten years for furniture and equipment, three years for automobiles and computers and thirty-nine years for the building.

1.9 Compensated Absences:

Annual leave is earned at the rate of 12 to 25 days per year depending on length of employment. Employees are expected to use at least one week (5 consecutive days) each year. An employee may not carry forward more than 5 vacation days to the next year without his/her supervisor's permission. Earned, but unused, annual leave will be paid when an employee terminates his/her employment except when this termination is involuntary or inadequate notice is given. Sick leave is earned at the rate of 7 to 10 days per year depending on length of employment. An employee may not carry forward more than 60 sick days to the next year without his/her supervisor's approval. Employees are not paid for earned, but unused, sick days upon termination of employment.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

1. Summary of Significant Accounting Policies (Continued):

1.10 Comparative Amounts:

The financial statements include certain prior-year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Corporation's financial statements for the year ended June 30, 2003, from which the summarized information was derived.

2. Cash and Cash Equivalents:

Cash and Cash Equivalents include demand deposits and short-term investments of less than three months as follows:

<u>Unrestricted</u>	<u>Carrying Value</u>	<u>Market Value</u>
Demand Deposits	\$ 127,159	\$ 127,159
Repurchase Agreements	306,847	306,847
South Carolina State Treasurer Pool	140,509	140,509
Commercial Paper	1,100,000	1,100,000
Commercial Bonds	8,051,097	8,051,097
U.S. Agency Bonds	<u>2,700,000</u>	<u>2,700,000</u>
	\$ <u>12,425,612</u>	\$ <u>12,425,612</u>
 <u>Temporarily Restricted</u>		
Demand Deposit	\$ 320	\$ 320
Repurchase Agreements	190,000	190,000
Collateralized Demand Deposit	24,863,576	24,863,576
South Carolina State Treasurer Pool	6,488,162	6,648,067
Guaranteed Investment Contracts	<u>37,773,632</u>	<u>37,773,632</u>
	\$ <u>69,315,690</u>	\$ <u>69,475,595</u>

Cash and Cash Equivalents included in the Teacher Loan Program include the South Carolina State Treasurer Pool totaling \$ 6,648,067.

3. Investments:

Investments consist of common stock. Investments' market value is determined by quoted market values and consist of the following:

	<u>Carrying Value</u>	<u>Market Value</u>
<u>Unrestricted:</u>		
Common Stock	\$ <u>-</u>	\$ <u>148,186</u>

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

4. Amounts Due from/to the Corporation:

The \$ 8,214,023 amount due to the Authority represents funds due for income earned but not yet received by the Corporation from the Department of Education and borrowers' payments at June 30. These funds will be remitted to the Authority when received or by the tenth of each month. The Authority also owes the Corporation funds collected on their behalf of \$ 28,808,236. Funds collected on behalf of the Corporation are required to be paid to the Corporation by the tenth of each month.

5. Federal Family Education Loans (FFEL) and Federal Reinsurance of FFEL Loans:

In 2004 and 2003, these loans bear interest at a fixed rate of 2.875% to 12% or an annual variable rate of 2.82% to 4.37%, which is reset each July 1 and which is equal to the bond equivalent rate of the 91-day or 52-week Treasury Bill, determined at the final auction held prior to the immediately preceding June 1, plus 1.7 to 3.25 percent with a cap on the rate of 8.25 to 12.00 percent. These loans are repayable over a period of five (5) to thirty (30) years with a minimum payment of \$ 360 or \$ 600 per year. Repayment of principal may be scheduled to begin within sixty (60) days of final disbursement or six (6) to ten (10) months after the student graduates or ceases to be enrolled on at least a half-time basis in an eligible institution.

Loans are insured against death, disability and default by the Authority and are reinsured by the U. S. Department of Education up to 100% for loans made prior to October 1, 1993, up to 98% for loans made on or after October 1, 1993 but before October 1, 1998, and 95% for loans made on or after October 1, 1998. Prior to March 1, 1999, loan recipients paid an amount equal to 1/2 of 1% of the principal amount of the loan as a guaranty premium. Since March 1, 1999, guaranty premiums have not been charged, however, the Authority reserves the right to reinstate such charges at such times and in such lawful amounts as it deems appropriate.

Loans may or may not be subsidized. Interest is paid on subsidized loans during the enrolled, grace and deferred periods by the U. S. Department of Education. Upon entering the repayment period, the interest is paid by the borrower.

From August 1981 to October 1992, all student loan recipients paid an origination fee equal to 5% of the loan amount. From October 1992 to July 1994, an additional origination fee of 1.5% was paid by recipients of unsubsidized loans. As of July 1994, all loan recipients paid a reduced origination fee of 3%. As of May 1, 2001 the origination fee was reduced by the Corporation to 1% and subsequently on January 1, 2002 was suspended for all loan recipients. The origination fees of 3% reduce the amount of interest subsidy the federal government pays to lenders on behalf of student borrowers whether collected or waived.

6. Bonds Payable:

The Corporation issued Education Loan Revenue Bonds for the first time in the year ended June 30, 1997. All of the Corporation's bonds are secured only by loans funded by bond proceeds, related revenue from such loans, investments and earnings on investments in related accounts and by a debt service reserve funded from bond proceeds. Certain loans were previously financed by bank lines-of-credit as described in Note 9. The bond resolution permits the Corporation to accumulate collections from borrowers to pay principal and interest on bonds as due. The bonds do not constitute a debt,

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

6. Bonds Payable (Continued):

liability or obligation of the State of South Carolina or a pledge of the faith and credit of the State of South Carolina. The current debt service account contains assets equal to the interest and principal accumulated to make the next payments of principal and interest due. As of June 30, 2004, the Corporation was required to have assets deposited in the current debt service account of \$ 22,501,568.

The Education Loan Revenue Bonds as of June 30, 2004 are as follows:

<u>Issued</u>	<u>Original Amount</u>	<u>Maturity Date</u>	<u>Balance Outstanding 6/30/03</u>	<u>Issued (Retired) During FY 04</u>	<u>Balance Outstanding 6/30/04</u>
July 11, 1996	\$ 223,900,000	9/1/26	\$ 85,000,000	\$	\$ 85,000,000
May 15, 1997	335,300,000	12/1/07-9/1/27	131,290,167	( 49,129,490)	82,160,677
May 14, 1998	211,400,000	9/1/2033	211,400,000		211,400,000
July 7, 1999	150,000,000	9/1/2007	9,687,196	( 9,687,196)	
July 18, 2000	150,000,000	6/1/2010	150,000,000	(27,028,202)	122,971,798
May 23, 2001	400,000,000	6/1/2012	400,000,000	(44,519,000)	355,481,000
April 30, 2002	210,000,000	6/1/2013	210,000,000		210,000,000
June 25, 2003	275,000,000	6/1/33-6/1/43	275,000,000		275,000,000
			\$ <u>1,472,377,363</u>	\$ <u>(130,363,888)</u>	\$ <u>1,342,013,475</u>

The Corporation's Treasury Indexed Bonds totaled \$ 2,160,677 as of June 30, 2004, and have variable interest rates equal to the Treasury Index plus 0.64%. The Corporation's Auction Rate Bonds totaled \$ 651,400,000 as of June 30, 2004, and have variable interest rates determined by auctions every 7 to 28 days, subject to a maximum of the lesser of 20% or certain variable caps that vary among the series. The Corporation's LIBOR Indexed Bonds totaled \$ 427,919,818 as of June 30, 2004 and have variable interest rates equal to three-month LIBOR plus 0.13% to 0.17% as adjusted quarterly. The Corporation's CP Indexed Bonds totaled \$ 260,532,980 and have variable interest rates ranging from the three-month Commercial Paper indexed rate plus 0.24% to 0.31% as adjusted weekly or monthly. Throughout the year ended June 30, 2004, none of the rates exceeded 2.05%. Future interest payment projections are based upon the four year weighted average rate at June 30, 2004, which was 2.93 %.

The Treasury Indexed Bonds, CP Indexed Bonds, and LIBOR Indexed Bonds are not subject to redemption prior to maturity but are subject to pro rata principal reduction payments prior to maturity based on targeted amortization schedules. Failure by the Corporation to make any payment contemplated by an applicable Targeted Amortization Schedule does not constitute a payment default. The Corporation's intent is to follow these payment schedules.

The Auction rate bonds are subject to redemption in whole or in part at par plus accrued interest on the first day of any auction period, provided targeted amortization payments on other bonds have been made in accordance with the respective Targeted Amortization Schedules as of the date of such redemption.



SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

6. Bonds Payable (Continued):

As of June 30, 2004, the scheduled debt service to retire these bonds is as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2005	\$ 206,241,475	\$ 36,545,411	\$ 242,786,886
2006	225,169,000	30,285,510	255,454,510
2007	219,449,000	23,657,636	243,106,636
2008	39,754,000	19,280,152	59,034,152
2009		19,086,020	19,086,020
2010		19,086,020	19,086,020
2011		19,086,020	19,086,020
2012		19,086,020	19,086,020
2013		19,086,020	19,086,020
2014		19,086,020	19,086,020
2015		19,086,020	19,086,020
2016		19,086,020	19,086,020
2017		19,086,020	19,086,020
2018		19,086,020	19,086,020
2019		19,086,020	19,086,020
2020		19,086,020	19,086,020
2021		19,086,020	19,086,020
2022		19,086,020	19,086,020
2023		19,086,020	19,086,020
2024		19,086,020	19,086,020
2025		19,086,020	19,086,020
2026		19,086,020	19,086,020
2027	85,000,000	17,010,603	102,010,603
2028	80,000,000	14,642,187	94,642,187
2029		14,251,520	14,251,520
2030		14,251,520	14,251,520
2031		14,251,520	14,251,520
2032		14,251,520	14,251,520
2033	209,000,000	13,741,212	222,741,212
2034	211,400,000	2,966,137	214,366,137
2035		1,933,800	1,933,800
2036		1,933,800	1,933,800
2037		1,933,800	1,933,800
2038		1,933,800	1,933,800
2039		1,933,800	1,933,800
2040		1,933,800	1,933,800
2041		1,933,800	1,933,800
2042		1,933,800	1,933,800
2043	66,000,000		66,000,000
Totals	\$ <u>1,342,013,475</u>	\$ <u>574,153,688</u>	\$ <u>1,916,167,163</u>

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

7. Notes Payable - Finance Loans:

Each bond resolution of the Authority requires that all funds advanced to SCSLC by the Authority for the purpose of making student loans be evidenced by a loan agreement, assignment of collateral and assignment of revenues between the two parties, with the student loans providing security to the bond trustee. Advances to SCSLC from the Authority's 1993 General Resolution are made pursuant to a loan agreement dated August 31, 1993, and advances to SCSLC from the Authority's 2002 General Resolution are made pursuant to a loan agreement dated June 12, 2002. Each loan is calculated as set forth in the respective loan agreements. The finance loans as of June 30, 2004 and 2003 are as follows:

<u>Authority Bond Resolution</u>	<u>Balance 6/30/03</u>	<u>Balance 6/30/04</u>
1993	\$ 151,747,899	\$ 323,895,594
2002	109,324,876	199,653,798
Total	\$ <u>261,072,775</u>	\$ <u>523,549,392</u>

8. Special Allowance Income:

As an inducement to the lender to make guaranteed student loans, the U. S. Department of Education pays the Corporation a special allowance on the unpaid principal of the loans which is based on a variable percentage rate. It was instituted to assure that the interest rate and other limitations of the Higher Education Act, in the context of the current money market conditions, would not adversely affect access to student loans or cause the rate of return on student loans to be less than equitable.

9. Employee Benefit Plans:

9.1 The Corporation provides retirement benefits through the South Carolina Student Loan Money Purchase Pension Plan for all employees who have completed one year of service and attained age 21. The Corporation has adopted the Branch Banking & Trust Co. (BB&T) Money Purchase Pension Plan. BB&T is the Trustee of the Plan. This is a defined contribution plan in which the employer contributes 5.6% of the participant's total annual compensation plus 5.6% of compensation exceeding the social security wage base. Contributions are paid monthly. A participant is 20% vested after three years service and 100% vested after seven years. A participant receives normal retirement at age sixty-five. At termination of employment or reaching normal retirement age, the participant has the right to elect to receive all or any portion of his vested benefit derived from employer contributions. Voluntary contributions are not permitted. Forfeitures under the plan reduce the employer's contribution in the year following the plan year in which the forfeiture occurs. The total retirement expense for 2004 is \$ 190,702 and is fully funded.

9.2 The South Carolina Student Loan Corporation finalized a supplemental retirement plan for its employees on July 1, 1998. The Plan is a defined benefit pension plan covering substantially all employees with one year of service and over 21 years of age. The Plan provides benefits based on the average of a participant's highest five consecutive years of pay. The benefit formula uses one percent of this average pay times years of service not to exceed 30 years.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

9. Employee Benefit Plans (Continued):

9.2 (Continued):

The Corporation funding policy is to make the minimum annual contribution that is actuarially computed by the projected unit credit method required by the Plan.

The net pension expense for this Plan totaled \$ 673,877, plus \$ 38,686 of administrative expenses, totaling \$ 712,563 for the year ended June 30, 2004. The Authority contributed \$ 244,035 to the expense for this Plan for its employees for the year ended June 30, 2004. The components of the pension cost charged to expense consisted of the following:

Service Cost (Benefits Earned)	\$ 229,241
Interest Cost on Projected Benefit Obligation	271,752
Actual Return on Assets	( 243,673 )
Net Amortization and Deferral	181,829
Minimum Liability	<u>234,728</u>
Net Pension Cost	\$ <u>673,877</u>

The following sets forth the Plan's funded status as of June 30, 2004. The measurement date of the projected benefits obligation and Plan assets was June 30, 2004.

Actuarial Present Value of Benefit Obligations:	
Vested Benefit Obligation	\$ 4,034,636
Non-vested Benefit Obligation	<u>142,206</u>
Accumulated Benefit Obligation	\$ <u>4,176,842</u>
Projected Benefits	\$( 4,910,027 )
Plan Assets at Fair Value	<u>3,900,886</u>
Projected Benefit Obligation (In Excess of) Plan Assets	\$( 1,009,141 )
Unrecognized Prior Service Cost	744,330
Unrecognized Net Loss	1,344,330
Required Additional Minimum Liability	( <u>1,355,475</u> )
Accrued Pension Cost	\$( <u>275,956</u> )

Assumptions used in accounting for net periodic pension cost were for discount rates of 7.0%, weighted average rates of increase in compensation levels of 4%, and expected long-term rate of return on assets of 8%. Plan assets include life insurance policies and a mutual fund. Employer contributions were \$ 1,187,000. No participant contributions are permitted by the Plan. Benefit payments made during the years ended June 30, 2004 totaled \$ 20,336.

- 9.3 The South Carolina Student Loan Corporation established the 403 (b) Defined Contribution Plan on November 5, 2002. The plan provides for a 5% contribution by the Corporation based on the participant's total annual compensation. The total amount contributed under the plan in 2004 was \$ 235,229, which the Authority reimbursed and \$ 88,553 for employees. All employees are eligible who have completed one year of service and attainment of age 21. Contributions are 100% vested when made. Employees are eligible to make voluntary contributions to the Plan.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

9. Employee Benefit Plans (Continued):

9.4 Certain health care, dental, long-term disability and life insurance benefits are provided to active employees. All full-time and part-time employees who worked at least 32 hours per week are eligible to receive these benefits. Employer contributions applicable to those benefits were \$ 719,575 in 2004.

10. Operating Leases:

The Corporation leased office space under a lease that was to expire October 31, 2006. However, during March 2004, the Corporation purchased the land and building and currently lease office space to nine (9) tenants as of June 30, 2004. Total rental expenses, prior to the purchase, including rental agreements under one year in duration were \$ 148,248 for June 30, 2004. Certain lease expense is allocated to South Carolina State Education Assistance Authority based on space occupied.

11. Rental Property and Operating Leases:

As described in Note 10, the Corporation purchased an office building. The Corporation occupies approximately 65% of the space. The building had lease agreements of varying duration. Future minimum lease payments are by year as follows: \$ 50,692 in 2005; \$ 25,937 in 2006; \$ 26,856 in 2007 and \$ 27,975 in 2008.

12. Disclosures About Fair Value of Financial Instruments:

The following methods and assumptions were used to estimate the fair value of the Corporation's financial instruments. Cash and cash equivalents' carrying amounts approximate fair value because of the short maturity of those instruments. Student loan receivables' carrying value approximates fair value based on similar investments' quoted market prices. The carrying value of finance loans also approximates fair value based on the prices for the same or similar debt issues and on the current rates offered to the Corporation for debt of the same remaining maturities with similar collateral requirements.

The Corporation intends to carry its investments and receivables to maturity. The Corporation also intends to carry to maturity the finance loans with the South Carolina State Education Assistance Authority.

13. Assets Released from Restrictions:

Net assets during the year ended June 30, 2004 were released from restrictions by incurring expenses satisfying the restricted purposes and by occurrence of other events specified as follows:

Personnel	\$ 273,205
Contractual Services	23,686
General Operating	47,639
Interest on Debt	17,927,494
TLP Cancellations	5,573,014
Amortization of Deferred Cost of Bond Issuance	1,578,864

SOUTH CAROLINA STUDENT LOAN CORPORATION  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2004

13. Assets Released from Restrictions (Continued):

Payment to SC State Education Assistance	
Authority for Student Loan Income	\$ 5,045,972
Lender Origination Fees	8,779,508
Reinsurance Expense	119,923
Borrowers Incentives	15,485,951
Broker Dealer Fees	1,856,612
Other	<u>250,639</u>
Total Expenses	\$ 56,962,507
Transfers for Loan Servicing on Taxable Bonds	7,547,635
Transfer from TLP Fund for Operations	<u>(15,218)</u>
Total	\$ <u>64,494,924</u>

14. Reclassifications:

Certain reclassifications were made on 2003 amounts on the statement of financial position and the statement of activities for comparability to 2004 with no effect on the change in net assets.

SOUTH CAROLINA STUDENT LOAN CORPORATION  
SCHEDULE OF FINANCIAL POSITION BY FUND  
JUNE 30, 2004

ASSETS	Unrestricted		Temporarily Restricted				
	Operating	SLC	Teacher Loans	96 Resolution	Tax Exempt		Total
					93 Resolution	02 Resolution	
<u>Current Assets:</u>							
Cash and Cash Equivalents	\$ 12,118,765	\$ 306,847	\$ 6,648,067	\$ 37,963,952	\$ 7,545,696	\$ 17,317,880	\$ 81,901,207
Investments	148,186						148,186
Current Portion of Student Loan Receivables		766,349	8,757,606	201,500,000	40,824,000	23,976,000	275,823,955
Interest Due from Borrowers		568,378	1,332,100	20,107,171	1,902,914	2,727,177	26,637,740
Due from United States Department of Education		39	291	3,104,373	3,073,471	875,743	7,053,917
Due from SC State Education Assistance Authority	15,735	84,188	123,250	26,046,382		2,538,681	28,808,236
Accrued Investment Income			51,559	27,232			78,791
Miscellaneous Operating Receivables	806						806
Prepaid Expenses	30,238						30,238
Due from (to) Other Funds	32,069	(25,811)	(6,258)	10,403	(10,403)		-
Total Current Assets	\$ 12,345,799	\$ 1,699,990	\$ 16,906,615	\$ 288,759,513	\$ 53,335,678	\$ 47,435,481	\$ 420,483,076
<u>Investments and Long-Term Receivables</u>							
Other Student Loan Receivables Less, Current Portion	\$	\$ 18,295,877	\$	\$ 1,219,204,090	\$ 275,536,301	\$ 161,323,309	\$ 1,674,359,577
Teacher Loans Receivable - Net Allowance for Teacher Loan Cancellations and Current Portion			5,580,712				5,580,712
Deferred Cost of Issuance of Bonds				3,154,621			3,154,621
Total Investments and Long-Term Receivables	\$ -	\$ 18,295,877	\$ 5,580,712	\$ 1,222,358,711	\$ 275,536,301	\$ 161,323,309	\$ 1,683,094,910
<u>Property and Equipment</u>							
Land	\$ 565,000	\$	\$	\$	\$	\$	\$ 565,000
Building	2,431,329						2,431,329
Furniture and Equipment	2,039,071						2,039,071
Automobiles	41,049						41,049
Less, Accumulated Depreciation	(1,564,991)						(1,564,991)
Net Property and Equipment	\$ 3,511,458	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,511,458
Total Assets	\$ 15,857,257	\$ 19,995,867	\$ 22,487,327	\$ 1,511,118,224	\$ 328,871,979	\$ 208,758,790	\$ 2,107,089,444

SOUTH CAROLINA STUDENT LOAN CORPORATION  
SCHEDULE OF FINANCIAL POSITION BY FUND  
JUNE 30, 2004

LIABILITIES AND NET ASSETS	Unrestricted		Temporarily Restricted				
	Operating	SLC	Teacher Loans	96 Resolution	Tax Exempt		Total
					93 Resolution	02 Resolution	
<u>Current Liabilities</u>							
Current Portion of Notes Payable - Finance Loans	\$	\$	\$	\$	\$ 40,824,000	\$ 23,976,000	\$ 64,800,000
Current Maturities of Bonds Payable				206,241,475			206,241,475
Interest Payable				1,111,826			1,111,826
Accounts Payable	975,637						975,637
Accrued Pension Payable	275,956						275,956
Compensated Absences	225,189		28,571				253,760
Due to SC State Education Assistance Authority					4,976,385	3,237,638	8,214,023
Total Current Liabilities	\$ 1,476,782	\$ -	\$ 28,571	\$ 207,353,301	\$ 45,800,385	\$ 27,213,638	\$ 281,872,677
<u>Long-Term Debt</u>							
Bonds Payable Less, Current Maturities and Bond Premiums and Discounts	\$	\$	\$	\$ 1,131,810,720	\$	\$	\$ 1,131,810,720
Notes Payable - Finance Loans Less, Current Maturities					283,071,594	175,677,798	458,749,392
Total Long-Term Debt	\$ -	\$ -	\$ -	\$ 1,131,810,720	\$ 283,071,594	\$ 175,677,798	\$ 1,590,560,112
 Total Liabilities	\$ 1,476,782	\$ -	\$ 28,571	\$ 1,339,164,021	\$ 328,871,979	\$ 202,891,436	\$ 1,872,432,789
<u>Net Assets:</u>							
Temporarily Restricted for Bond Indentures							
Current Debt Service	\$	\$	\$	\$ 22,501,568	\$	\$	\$ 22,501,568
Temporarily Restricted for Bond Indentures				149,452,635		5,867,354	155,319,989
Temporarily Restricted for Teacher Loans			22,458,756				22,458,756
Unrestricted	14,380,475	19,995,867					34,376,342
Total Net Assets	\$ 14,380,475	\$ 19,995,867	\$ 22,458,756	\$ 171,954,203	\$ -	\$ 5,867,354	\$ 234,656,655
 Total Liabilities and Net Assets	\$ 15,857,257	\$ 19,995,867	\$ 22,487,327	\$ 1,511,118,224	\$ 328,871,979	\$ 208,758,790	\$ 2,107,089,444

SOUTH CAROLINA STUDENT LOAN CORPORATION  
SCHEDULE OF ACTIVITIES BY FUND  
YEAR ENDED JUNE 30, 2004

	Unrestricted		Temporarily Restricted					
	Operating	SLC	Teacher Loans	96 Resolution	Tax Exempt		Total	
					93 Resolution	02 Resolution		
<u>Revenue:</u>								
Income from United States Department of Education:								
Student Loan Interest - Subsidized	\$	\$ 13,316	\$ 2,247	\$ 10,605,770	\$ 2,598,123	\$ 1,249,826	\$ 14,469,282	
Special Allowances		27	(29)	1,091,166	9,662,846	2,105,548	12,859,558	
Student Loan Interest - Non Subsidized		768,073	1,616,163	47,115,833	4,222,335	6,337,651	60,060,055	
Investment Income	109,643	3,103	240,466	1,111,554		30,336	1,495,102	
Unrealized Gain (Loss) on Investments	70,577		(192,154)				(121,577)	
Late Charges		2,814	9,355	776,542	11,750	75,884	876,345	
Miscellaneous Payments of Student Loans		(16)	152	7,883	(261)	1,531	9,289	
State Appropriations - Department of Education			4,377,048				4,377,048	
Building Rental Income	52,005						52,005	
Remittance from SC State Education Assistance Authority for Operating Cost	3,901,624				2,144,391		6,046,015	
Total Revenue	\$ 4,133,849	\$ 787,317	\$ 6,053,248	\$ 60,708,748	\$ 18,639,184	\$ 9,800,776	\$ 100,123,122	
<u>Expenses:</u>								
Personnel	\$ 5,464,027	\$	\$ 273,205	\$	\$	\$	\$ 5,737,232	
Contractual Services	656,768		23,686				680,454	
General Operating	1,715,090		47,639				1,762,729	
Interest on Debt				17,927,494			17,927,494	
TLP Cancellations			5,573,014				5,573,014	
Amortization of Deferred Cost of Bond Issuance				1,578,864			1,578,864	
Payments to SC State Education Assistance Authority for Student Loan Income						5,045,972	5,045,972	
Lender Origination Fees				4,809,434	3,150,064	820,010	8,779,508	
Reinsurance Expense		348		115,818	653	3,452	120,271	
Borrower Incentives		(31)		4,552	15,488,467	(7,068)	15,485,920	
Broker Dealer Fees				1,856,612			1,856,612	
Building Rental Expenses	111,762						111,762	
Other	5,338	152,524	59,459	39,906		151,274	408,501	
Total Expenses	\$ 7,952,985	\$ 152,841	\$ 5,977,003	\$ 26,332,680	\$ 18,639,184	\$ 6,013,640	\$ 65,068,333	
<u>Transfers Between Accounts:</u>								
Transfers In	\$ 6,180,139	\$ 1,400,000	\$ 1,830,151	\$	\$	\$	\$ 9,410,290	
Transfers Out	(15,218)	(32,504)	(1,814,933)	(7,547,635)			(9,410,290)	
Total Transfers Between Accounts	\$ 6,164,921	\$ 1,367,496	\$ 15,218	\$ (7,547,635)	\$ -	\$ -	\$ -	
<u>Change in Net Assets</u>	\$ 2,345,785	\$ 2,001,972	\$ 91,463	\$ 26,828,433	\$ -	\$ 3,787,136	\$ 35,054,789	
<u>Net Assets:</u>								
Beginning	12,034,690	17,993,895	22,367,293	145,125,770		2,080,218	199,601,866	
Ending	\$ 14,380,475	\$ 19,995,867	\$ 22,458,756	\$ 171,954,203	\$ -	\$ 5,867,354	\$ 234,656,655	



SOUTH CAROLINA STUDENT LOAN CORPORATION  
SCHEDULE OF CASH FLOWS BY FUND  
YEAR ENDED JUNE 30, 2004

	Unrestricted		Temporarily Restricted					
	Operating	SLC	Teacher Loans	96 Resolution	93 Resolution	02 Resolution	Total	
<u>Cash Flows from Operating Activities:</u>								
Change in Net Assets	\$ 2,345,785	\$ 2,001,972	\$ 91,463	\$ 26,828,433	\$	\$ 3,787,136	\$ 35,054,789	
Adjustments to Reconcile Change in Net Assets to Net Cash Provided by (Used in) Operating Activities:								
Depreciation	161,774						161,774	
Amortization of Premiums and Discounts on Bonds Payable				532,791			532,791	
Amortization of Cost of Bond Issuance				1,046,072			1,046,072	
Changes in Operating Assets and Liabilities:								
(Increase) Decrease in Due from US Department of Education		15,461	(291)	(90,649)	(698,562)	(510,369)	(1,284,410)	
(Increase) Decrease in Due from SC State Education Assistance Authority	14,547	(84,188)	(123,250)	(25,993,489)		(2,538,681)	(28,725,061)	
(Increase) Decrease in Interest Due from Borrowers		98,414	194,099	4,338,126	(764,498)	(889,172)	2,976,969	
(Increase) Decrease in Accrued Investment Income	3,636		41,592	44,985			90,213	
(Increase) Decrease in Miscellaneous Receivables	57,570						57,570	
(Increase) Decrease in Prepaid Expenses	(25,323)						(25,323)	
Increase (Decrease) in Interest Payable				(119,659)			(119,659)	
Increase (Decrease) in Accounts Payable	(112,482)	(20,686)	(16,834)		(16)	(7,343)	(157,361)	
Increase (Decrease) in Accrued Pension Expense	(489,451)		(23,672)				(513,123)	
Increase (Decrease) in Compensated Absences	44,957		4,729				49,686	
Increase (Decrease) in Due to SC State Education Assistance Authority	(1,429,855)			(192,949)	1,463,059	2,090,908	1,931,163	
Due to (from) Other Funds	(8,596,878)	(5,065,246)	135,827	12,701,657	10,403	814,237		
Net Cash Provided by (Used in) Operating Activities	\$ (8,025,720)	\$ (3,054,273)	\$ 303,663	\$ 19,095,318	\$ 10,386	\$ 2,746,716	\$ 11,076,090	
<u>Cash Flows from Investing Activities:</u>								
Purchase of Property and Equipment	\$ (3,334,432)	\$	\$	\$	\$	\$	(3,334,432)	
Purchase and Issuance of Student Loans		(3,074,406)	(7,776,652)	(40,101,024)	(566,963,775)	(109,135,792)	(727,051,649)	
Principal Payments on Student Loans		5,482,523	737,541	100,310,242	381,883,674	17,079,671	505,493,651	
Teacher Loan Cancellations			5,573,014				5,573,014	
Unrealized (Gain) Loss on Investments	(70,577)						(70,577)	
Net Cash Provided by (Used in) Investing Activities	\$ (3,405,009)	\$ 2,408,117	\$ (1,466,097)	\$ 60,209,218	\$ (185,080,101)	\$ (92,056,121)	\$ (219,389,993)	



## SOUTH CAROLINA STUDENT LOAN CORPORATION

## SCHEDULE OF PROPERTY AND EQUIPMENT

YEAR ENDED JUNE 30, 2004

Description and Rate	Cost	Accumulated Depreciation 6/30/03	Depreciation Expense	Disposals and Transfers	Accumulated Depreciation 6/30/04
<u>Land:</u>	\$ 565,000	\$	\$	\$	\$
<u>Building:</u>	\$ 2,431,329	\$	\$ 14,971	\$	\$ 14,971
<u>Furniture and Fixtures:</u>					
Computer Equipment	\$ 1,508,970	\$ 1,287,560	\$ 102,460	\$ 68,473	\$ 1,321,547
Other Office Machines	210,083	231,607	10,706	105,090	137,223
Telephone Equipment	233,718	33,157	7,844	35,920	5,081
Miscellaneous	86,300	41,153	12,111		53,264
Total Furniture and Fixtures	\$ 2,039,071	\$ 1,593,477	\$ 133,121	\$ 209,483	\$ 1,517,115
<u>Automobiles:</u>					
2001 Buick LeSabre	\$ 18,500	\$ 12,334	\$ 6,166	\$	\$ 18,500
2002 Buick Park Avenue	22,549	6,889	7,516		14,405
Total Automobiles	\$ 41,049	\$ 19,223	\$ 13,682	\$ -	\$ 32,905
Grand Totals	\$ 5,076,449	\$ 1,612,700	\$ 161,774	\$ 209,483	\$ 1,564,991

SOUTH CAROLINA STUDENT LOAN CORPORATION  
SCHEDULE OF EXPENSES  
YEAR ENDED JUNE 30, 2004

	Operating Fund				Teacher Loan Program - EIA			
	2004		Variance Favorable (Unfavorable)	2003 Actual	2004		Variance Favorable (Unfavorable)	2003 Actual
	Total Budget	Actual			Total Budget	Actual		
Operating Expenses:								
Personnel:								
Staff Salaries	\$ 3,760,150	\$ 3,668,400	\$ 91,750	\$ 3,354,690	\$ 201,750	\$ 207,823	\$ (6,073)	\$ 199,943
Part-time Salaries	28,000	11,825	16,175	36,586				
Contracted Services	11,300	3,642	7,658	6,410				
Social Security	272,775	262,536	10,239	242,549	15,700	15,117	583	14,467
Group Insurance	714,600	687,355	27,245	635,737	33,525	32,220	1,305	29,800
Retirement	731,400	365,142	366,258	815,161	37,500	17,345	20,155	28,244
Non-recurring Defined Benefit	451,333	451,333	-					
Unemployment	12,325	13,794	(1,469)	11,574	650	700	(50)	577
Total Personnel	\$ 5,981,883	\$ 5,464,027	\$ 517,856	\$ 5,102,707	\$ 289,125	\$ 273,205	\$ 15,920	\$ 273,031
Contractual:								
Loan Servicing	\$ 594,400	\$ 587,897	\$ 6,503	\$ 417,998	\$ 22,750	\$ 21,870	\$ 880	\$ 18,534
Legal	19,000	10,246	8,754	16,785				
Accounting	58,700	58,625	75	42,072	1,825	1,816	9	1,767
Total Contractual	\$ 672,100	\$ 656,768	\$ 15,332	\$ 476,855	\$ 24,575	\$ 23,686	\$ 889	\$ 20,301
General Operating:								
Rent	\$ 202,250	\$ 139,185	\$ 63,065	\$ 194,650	\$ 9,500	\$ 9,063	\$ 437	\$ 9,124
Telephone	169,000	165,186	3,814	170,490	7,925	7,744	181	7,992
Printing	266,850	265,268	1,582	259,042	7,700	6,846	854	9,857
Postage	653,800	645,990	7,810	630,990	15,500	15,355	145	15,948
Supplies	108,675	109,553	(878)	75,447	3,450	3,492	(42)	3,535
Travel	62,000	57,637	4,363	58,602	400	334	66	365
Equipment Maintenance	29,650	30,620	(970)	38,970	1,400	1,435	(35)	1,827
Subscriptions and Fees	33,000	32,352	648	31,326	125	20	105	20
Meeting and Conference Expenses	11,000	9,769	1,231	9,141	200	193	7	5
Insurance - General and Automotive	50,500	54,373	(3,873)	44,745	2,200	2,549	(349)	2,097
Marketing	17,750	17,415	335					
Contingencies	40,000	25,968	14,032	37,976	500	608	(108)	310
Depreciation	200,000	161,774	38,226	162,351				
Total General Operating	\$ 1,844,475	\$ 1,715,090	\$ 129,385	\$ 1,713,730	\$ 48,900	\$ 47,639	\$ 1,261	\$ 51,080
Total Operating Expenses	\$ 8,498,458	\$ 7,835,885	\$ 662,573	\$ 7,293,292	\$ 362,600	\$ 344,530	\$ 18,070	\$ 344,412

SOUTH CAROLINA STUDENT LOAN CORPORATION  
SCHEDULE OF EXPENSES  
YEAR ENDED JUNE 30, 2004

	Operating Fund				Teacher Loan Program - EIA			
	2004		Variance Favorable (Unfavorable)	2003 Actual	2004		Variance Favorable (Unfavorable)	2003 Actual
	Total Budget	Actual			Total Budget	Actual		
Capital Additions:								
Land and Building	\$ 3,000,000	\$ 2,996,329	\$ 3,671	\$ -	\$	\$	\$	\$
Equipment, Furniture and Fixtures	363,578	338,103	25,475	256,355				2,990
Automobile	-	-	-	22,549				
Total Capital Additions	<u>3,363,578</u>	<u>\$ 3,334,432</u>	<u>\$ 29,146</u>	<u>\$ 278,904</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,990</u>
Total Operating Expenses and Capital Additions	<u>\$ 11,862,036</u>	<u>\$ 11,170,317</u>	<u>\$ 691,719</u>	<u>\$ 7,572,196</u>	<u>\$ 362,600</u>	<u>\$ 344,530</u>	<u>\$ 18,070</u>	<u>\$ 347,402</u>

SOUTH CAROLINA STUDENT LOAN CORPORATIONSCHEDULE OF ORGANIZATIONAL DATAYEAR ENDED JUNE 30, 2004

Incorporated November 15, 1973 under the Laws of the State of South Carolina. Began operations October 14, 1974. Offices located at Suite 210, Interstate Center, Columbia, South Carolina in leased premises.

BOARD OF DIRECTORS OF THE CORPORATION

<u>Name</u>	<u>Office</u>	<u>Term Expires 6/30</u>
Robert W. Derrick	Chairman	2005
Sharon W. Bryant	Vice-Chairman	2006
Dr. Dennis A. Pruitt, Sr.	Vice-Chairman	2006
Thomas J. Little, Jr.	Treasurer	2005
William M. Mackie, Jr.	Secretary, President	2007
Melvin E. Barnette		2005
T. Graham Edwards		2006
Dr. Ronald L. Epps		2007
J. Thornton Kirby		2005
William G. McMaster		2006
Lisa Montgomery		2007
Dr. Caroline B. Whitson		2007

SCHEDULE 7

SOUTH CAROLINA STUDENT LOAN CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

<u>Federal Grantor/ Program Title</u>	<u>CFDA Number</u>	<u>Amount of Grant</u>	<u>Expenses</u>
U.S. Department of Education Programs:			
Higher Education Act Insured Loans Contract			
Federal Family Education Loan Programs:			
Special Allowances	84.032		\$ 12,859,558
Subsidized Interest	84.032		<u>14,469,282</u>
Total U.S. Department of Education Programs (Major Program)			\$ <u>27,328,840</u>



DERRICK, STUBBS & STITH, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS

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Charles R. Statler, Jr., CPA  
Alan F. Grimsley, CPA  
Hugh R. Penny, CPA, CISA, CBA

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL  
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors  
South Carolina Student Loan Corporation  
Columbia, South Carolina

We have audited the financial statements of the South Carolina Student Loan Corporation as of and for the year ended June 30, 2004, and have issued our report thereon dated August 25, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the South Carolina Student Loan Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the South Carolina Student Loan Corporation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the management, Board of Directors and the U.S. Department of Education and is not intended to be and should not be used by anyone other than those specified parties.

*Derrick, Stubbs & Stith, LLP*

August 25, 2004





**DERRICK, STUBBS & STITH, L.L.P.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

To the Board of Directors  
South Carolina Student Loan Corporation  
Columbia, South Carolina

**Compliance**

We have audited the compliance of the South Carolina Student Loan Corporation with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The South Carolina Student Loan Corporation's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the South Carolina Student Loan Corporation's management. Our responsibility is to express an opinion on the South Carolina Student Loan Corporation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the South Carolina Student Loan Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the South Carolina Student Loan Corporation's compliance with those requirements.

In our opinion, the South Carolina Student Loan Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004.

**Internal Control Over Compliance**

The management of the South Carolina Student Loan Corporation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the South Carolina Student Loan Corporation's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

To the Board of Directors  
South Carolina Student Loan Corporation  
Page 2

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be material weaknesses.

This report is intended solely for the information of the management, Board of Directors and the U.S. Department of Education and is not intended to be and should not be used by anyone other than those specified parties.

*Derick, Huhle + Stith, LLP*

August 25, 2004



SOUTH CAROLINA STUDENT LOAN CORPORATION

SCHEDULE OF SUMMARY OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2004

There are no prior audit findings and questioned costs relative to Federal Awards.

SOUTH CAROLINA STUDENT LOAN CORPORATION

SCHEDULE OF CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2004

There is no corrective action plan required since there are no prior audit findings and questioned costs relative to Federal Awards.

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# **SOUTH CAROLINA STUDENT LOAN CORPORATION**

## **SUMMARY OF OPERATIONS FOR**

**FISCAL YEARS ENDING JUNE 30, 2000, 2001, 2002, 2003 and 2004.**

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**S.C. STUDENT LOAN CORPORATION  
SUMMARY OF OPERATIONS**

**YEARS ENDED JUNE 30, 2000, 2001, 2002, 2003, and 2004**

	2000	2001	2002	2003	2004
<b>Revenue:</b>					
Income from United States Department of Education:					
Student Loan Interest - Subsidized	\$ 26,050,998	\$ 30,076,341	\$ 22,898,992	\$ 16,259,325	\$ 14,469,282
Special Allowances	13,929,937	7,368,227	7,124,957	11,032,458	12,859,558
Student Loan Interest - Non Subsidized	70,970,029	86,212,845	74,629,461	62,154,470	60,060,055
Investment Income	3,303,038	4,188,702	3,978,368	2,347,600	1,495,102
Unrealized Gain (Loss) on Investments	(36,399)	311,237	129,065	(121,630)	(121,577)
Late Charges	726,063	736,219	605,731	712,563	876,345
Miscellaneous Payments of Student Loans	2,371	4,718	1,242	4,370	9,289
Premium on Sale of Loans	9,656	7,588	7,530	1,099	0
State Appropriations - Department of Education	2,016,250	3,916,250	4,821,058	4,584,264	4,377,048
Building Rental Income	0	0	0	0	52,005
Processing Fee Income	74,661	73,899	78,129	0	0
Remittance from S. C. State Education Assistance Authority for Operating Cost	5,884,370	6,767,917	6,835,523	5,615,073	6,046,015
<b>Total Revenue</b>	<b>\$ 122,930,974</b>	<b>\$ 139,663,943</b>	<b>\$ 121,110,056</b>	<b>\$ 102,589,592</b>	<b>\$ 100,123,122</b>
<b>Expenses:</b>					
Personnel	\$ 4,622,940	\$ 4,799,022	\$ 5,347,023	\$ 5,475,711	\$ 5,737,232
Contractual Services	525,273	556,272	663,624	497,156	680,454
General Operating	1,619,713	1,731,324	1,822,747	1,764,810	1,762,729
Interest on Debt	55,265,208	62,328,963	33,154,374	21,560,363	17,927,494
TLP Cancellations	4,188,420	10,682,069	9,329,158	5,502,449	5,573,014
Amortization of Deferred Cost of Bond Issuance	88,713	349,305	771,253	1,310,920	1,578,864
Payments to S. C. Education Assistance Authority for:					
Student Loan Income	33,513,035	32,271,894	18,774,718	8,986,980	5,045,972
Loan Fees	2,359,524	2,725,527	4,309,098	6,502,476	8,779,508
Windfall Profit Rebate Expense	0	0	0	0	0
Reinsurance Expense	71,397	161,176	162,766	169,175	120,271
Borrower Incentives	0	242,178	6,515,415	14,786,516	15,485,920
Loss (Gain) on Disposal of Equipment	0	0	0	0	0
State Recall of Funds	0	0	0	3,278,710	0
Broker Dealer Fees	952,328	1,000,748	957,954	999,986	1,856,612
Building Rental Expenses	0	0	0	0	111,762
Other	214,691	232,334	286,613	279,878	408,501
<b>Total Expenses</b>	<b>\$ 103,421,242</b>	<b>\$ 117,080,812</b>	<b>\$ 82,094,743</b>	<b>\$ 71,115,130</b>	<b>\$ 65,068,333</b>
<b>Change in Net Assets</b>	<b>\$ 19,509,732</b>	<b>\$ 22,583,131</b>	<b>\$ 39,015,313</b>	<b>\$ 31,474,462</b>	<b>\$ 35,054,789</b>
<b>Net Assets, Beginning</b>	<b>\$ 87,199,228</b>	<b>\$ 106,708,960</b>	<b>\$ 129,112,091</b>	<b>\$ 168,127,404</b>	<b>\$ 199,601,866</b>
<b>Net Assets, Ending:</b>					
Temporarily Restricted for Bonds	\$ 55,632,030	\$ 78,182,265	\$ 115,594,908	\$ 147,205,988	\$ 177,821,557
Temporarily Restricted for Teacher Loans	29,791,514	26,516,694	25,010,517	22,367,293	22,458,756
Unrestricted	21,285,416	24,413,132	27,521,979	30,028,585	34,376,342
<b>Total Liabilities and Net Assets</b>	<b>\$ 106,708,960</b>	<b>\$ 129,112,091</b>	<b>\$ 168,127,404</b>	<b>\$ 199,601,866</b>	<b>\$ 234,656,655</b>

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**SOUTH CAROLINA STUDENT LOAN CORPORATION**

UNAUDITED

BALANCE SHEET AND INCOME STATEMENT

FOR THE NINE MONTH PERIOD

JULY 1, 2004 THROUGH MARCH 31, 2005

AS PREPARED BY THE CORPORATION

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**SOUTH CAROLINA STUDENT LOAN CORPORATION**  
**SCHEDULE OF FINANCIAL POSITION BY FUND**  
**MARCH 31, 2005**

	Unrestricted	Temp Restricted-Taxable				Temp Restricted-Tax Exempt		
	Operating/SLC	Teacher Loan Program	Warehouse Financing	1996 Resolution	2004 Resolution	1993 Resolution	2002 Resolution	Total
<b><u>ASSETS</u></b>								
<u>Current Assets:</u>								
Cash & Cash Equivalents	16,176,197	6,366,632	1,083,105	655,245	20,813,086	14,096,505	10,624,278	69,815,047
Cash & Cash Equivalents - Restricted			705,670	33,514,819	22,939,000			57,159,489
Current Portion of Student Loan Receivable	766,349	8,757,606	18,067,615	201,500,000	18,588,618	40,824,000	23,976,000	312,480,187
Interest Due From Borrowers	27,649	1,459,610	595,741	17,559,770	2,713,055	2,163,001	3,075,853	27,594,679
Due from (to) SC Education Assistance Auth	30,455	166,824	(5,491)	24,704,347	14,792		4,367,856	29,278,782
Due from (to) US Department of Education	28	1,903	129,618	6,388,687	595,525	2,508,608	(334,273)	9,290,097
Accrued Investment Income	32,834	44,803	759	80,361	88,667			247,423
Miscellaneous Operating Receivables	15,262							15,262
Prepaid Expenses	7,238							7,238
Due from (to) Other Funds	141,941	(66,585)	(7,432)	7,836	(34,704)	(12,686)	(28,369)	
Total Assets - Short Term	17,197,953	16,730,791	20,569,584	284,411,065	65,718,037	59,579,428	41,681,345	505,888,204
<u>Long Term Assets:</u>								
Other Student Loan Rec Less Current Portion	402,279		120,914,038	1,087,907,307	132,774,508	199,079,397	348,983,187	1,890,060,716
Teacher Lns Rec Less Curr Port/Canc Allowance		7,683,471						7,683,471
Deferred COI				2,460,373	916,139			3,376,513
Restricted Assets	155,088							155,088
Total Assets - Long Term	557,367	7,683,471	120,914,038	1,090,367,680	133,690,647	199,079,397	348,983,187	1,901,275,789
<u>Property, Plant &amp; Equipment:</u>								
Land	565,000							565,000
Building	2,431,329							2,431,329
Furniture & Equipment	2,149,468							2,149,468
Automobiles	61,264							61,264
Less Accumulated Depreciation	(1,768,484)							(1,768,484)
Total Fixed Assets	3,438,577	0	0	0	0	0	0	3,438,577
Total Assets	21,193,897	24,414,263	141,483,622	1,374,778,745	199,408,685	258,658,826	390,664,533	2,410,602,570

**SOUTH CAROLINA STUDENT LOAN CORPORATION**  
**SCHEDULE OF FINANCIAL POSITION BY FUND**  
**MARCH 31, 2005**

	Unrestricted	Temp Restricted-Taxable				Temp Restricted-Tax Exempt		
	Operating/SLC	Teacher Loan Program	Warehouse Financing	1996 Resolution	2004 Resolution	1993 Resolution	2002 Resolution	Total
<b><u>LIABILITIES AND NET ASSETS</u></b>								
<u>Current Liabilities:</u>								
Accounts Payable	133,716		301,956		96,172			531,844
Warehouse Financing			141,133,909					141,133,909
Current Portion/Notes Payable - Finance Loans						40,824,000	23,976,000	64,800,000
Current Maturities of Bonds Payable				219,982,581				219,982,581
Interest Payable				2,038,532	31,000			2,069,532
Accrued Pension Payable	275,956							275,956
Compensated Absences Payable	225,189	28,571						253,759
Retiree Medical Insurance Payable	1,436,129							1,436,129
Due To SC State Education Assistance Auth						4,693,903	29,839	4,723,743
Consolidation Rebate Fee Due/US Dept Ed					16,933			16,933
Total Liabilities - Short Term	2,070,990	28,571	141,435,865	222,021,113	144,105	45,517,903	24,005,839	435,224,385
<u>Liabilities - Long Term:</u>								
Bonds Payable				962,727,364	180,000,000			1,142,727,364
Notes Payable						213,140,922	360,211,831	573,352,753
Interest On Finance Note							809,410	809,410
Total Liabilities - Long Term	0	0	0	962,727,364	180,000,000	213,140,922	361,021,240	1,716,889,526
Total Liabilities	2,070,990	28,571	141,435,865	1,184,748,477	180,144,105	258,658,826	385,027,080	2,152,113,912
<u>Net Assets:</u>								
Total Net Assets	19,122,907	24,385,692	47,757	190,030,269	19,264,580	0	5,637,453	258,488,658
Total Liabilities and Fund Balances	21,193,897	24,414,263	141,483,622	1,374,778,745	199,408,685	258,658,826	390,664,533	2,410,602,570

**SOUTH CAROLINA STUDENT LOAN CORPORATION**  
**SCHEDULE OF ACTIVITIES BY FUND**  
**NINE MONTHS ENDING MARCH 31, 2005**

	Unrestricted	Temp Restricted-Taxable				Temp Restricted-Tax Exempt		
	Operating/SLC	Teacher Loan Program	Warehouse Financing	1996 Resolution	2004 Resolution	1993 Resolution	2002 Resolution	Total
Revenue:								
Subsidized Interest	15	1,629	14,556	6,546,902	418,585	2,532,473	1,769,218	11,283,377
Special Allowance	62	2,921	113,949	9,120,380	514,603	11,933,630	3,533,859	25,219,404
Unsubsidized Interest	300,880	1,213,276	235,191	34,287,582	1,958,642	5,690,307	6,297,545	49,983,424
Late Charges	1,744	10,553	1,764	849,625	12,774	35,177	100,079	1,011,717
Misc Payments of Student Loans		(3,589)	(12)	(9,159)	(127)	(941)	(880)	(14,708)
State Appropriations - US Dept of Education		4,831,932						4,831,932
Investment Income	185,237	168,144	759	989,141	430,678		20,862	1,794,821
Unrealized Gain/(Loss) on Investments	6,902	(164,174)						(157,272)
Remittance from SEAA-For Operation Cost	3,153,386							3,153,386
Building Rental Income	147,555							147,555
Total Revenue	3,795,781	6,060,691	366,207	51,784,471	3,335,156	20,190,646	11,720,683	97,253,635
Operating Expenses:								
Personnel	4,510,526	232,761						4,743,287
Contractual Services	622,290	23,994						646,284
General Operating Expenses	1,308,950	37,621						1,346,571
Building Expenses	271,488							271,488
Interest on Debt			122,550	20,645,642	1,529,250			22,297,442
Broker Dealer/Trustee Fees			417	1,332,176	184,500			1,517,093
Amortization of COI				694,248	17,706			711,954
Pmt to SEAA/Loan Agreement						10,511,230	3,061,275	13,572,505
Loan Fees			106,065	3,911,789	85,944	2,108,697	1,918,908	8,131,403
Borrower Benefits	2,400	2,952	4,276	1,009,649	12,890	7,570,915	7,026,717	15,629,799
Reinsurance Expense				151,359	117	(195)	6,779	158,060
TLP Cancellations		3,797,225						3,797,225
Other Expenses	(140,865)	39,201	243,993		519,286		(63,094)	598,522
Total Expenses	6,574,789	4,133,755	477,301	27,744,864	2,349,693	20,190,646	11,950,585	73,421,633
Transfers	12,474,426		(158,852)	5,963,542	(18,279,117)			
Change In Net Assets	(15,253,435)	1,926,936	47,757	18,076,065	19,264,580	0	(229,902)	23,832,002
Net Assets, Beginning	34,376,342	22,458,756	0	171,954,204	0	0	5,867,354	234,656,656
Net Assets, Ending	19,122,907	24,385,692	47,757	190,030,269	19,264,580	0	5,637,453	258,488,658

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**FORM OF OPINION OF BOND COUNSEL**

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[Date of Delivery]

South Carolina Student Loan Corporation  
Columbia, South Carolina

RBC Dain Rauscher Inc.  
Charleston, South Carolina

A.G. Edwards & Sons, Inc.  
St. Louis, Missouri

BB&T Capital Markets,  
a division of Scott & Stringfellow, Inc.  
Winston-Salem, North Carolina

Friedman, Billings, Ramsey & Co., Inc.  
Arlington, Virginia

The Bank of New York  
New York, New York

RE: \$700,000,000 South Carolina Student Loan Corporation Education Loan Revenue Bonds,  
2005 Series

We have examined the Constitution and Statutes of the State of South Carolina (the "State"), a certified copy of the proceedings and other proofs relating to the authorization and issuance of the 2005 Series Education Loan Revenue Bonds, described above (the "2005 Series Bonds") of the South Carolina Student Loan Corporation (the "Corporation"), a nonprofit, public-benefit corporation under the laws of the State.

The 2005 Series Bonds are issued by the Corporation pursuant to:

(i) a General Resolution Providing for the Issuance and Sale of South Carolina Student Loan Corporation Education Loan Revenue Bonds and Other Matters Relating Thereto, adopted June 7 1996, as amended (the "General Resolution"); and

(ii) a Series Resolution Providing for the Issuance and Sale of Not Exceeding Seven Hundred Million Dollars (\$700,000,000) South Carolina Student Loan Corporation Education Loan Revenue and Refunding Bonds, 2005 Series; and Other Matters Relating Thereto, effective \_\_\_\_\_, 2005 (the "2005 Series Resolution").

The General Resolution and the 2005 Series Resolution as they may be amended from time to time are herein collectively called the "Resolutions," and capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Resolutions.

South Carolina Student Loan Corporation  
RBC Dain Rauscher Inc.  
A.G. Edwards & Sons, Inc.  
BB&T Capital Markets,  
a division of Scott & Stringfellow, Inc.  
Friedman, Billings, Ramsey & Co., Inc.  
The Bank of New York  
\_\_\_\_\_, 2005  
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Each Tranche of the 2005 Series Bonds are dated the date of their delivery and bear interest, after the Initial Period, at the LIBOR Indexed Rate. The 2005 Series Bonds mature, subject to Principal Reduction Payments, on the Stated Maturity with respect to such Tranche. Each Tranche of the 2005 Series Bonds are subject to Principal Reduction Payments on the dates and in the amounts set forth in the Corporation Issuance and Sale Certificate. Interest on the 2005 Series Bonds is payable on each Interest Payment Date until maturity or earlier payment of such 2005 Series Bonds.

The 2005 Series Bonds are not subject to optional redemption.

All of the 2005 Series Bonds are issuable as fully registered bonds in Authorized Denominations as provided in the 2005 Series Resolution and are numbered in such fashion as to maintain a proper record thereof.

The 2005 Series Bonds are issued to (i) finance and refinance the acquisition and making of Education Loans, including the refunding of certain prior Education Loan Revenue Bonds issued under the General Resolution, (ii) fund the Senior Lien Account of the Debt Service Reserve Fund, (iii) make a deposit to the Interest Account of the Debt Service Fund, and (iv) pay certain Costs of Issuance of the 2005 Series Bonds.

The Corporation has reserved the right to issue additional bonds on the terms and conditions, and for the purposes, stated in the Resolutions.

It is our opinion that:

1. The Corporation is a duly created and validly existing South Carolina nonprofit, public-benefit corporation with full power and authority to issue the 2005 Series Bonds and to perform all of its obligations under the Resolutions.

2. The Corporation has the right and power to adopt the Resolutions, the Resolutions have been duly and lawfully adopted by the Corporation, constitute a contract between the Corporation and the Holders of 2005 Series Bonds, are in full force and effect and are valid and binding upon the Corporation and enforceable in accordance with their terms, except to the extent that the enforceability of the Resolutions may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights.

3. The Resolutions create a valid pledge of the Pledged Assets subject to the provisions of the Resolutions permitting application of moneys, rights and interests to the extent and under the conditions prescribed by the Resolutions.

South Carolina Student Loan Corporation  
RBC Dain Rauscher Inc.  
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\_\_\_\_\_, 2005

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4. The Resolutions permit the issuance of both Senior Lien Bonds and Subordinate Lien Bonds. The 2005 Series Bonds are Senior Lien Bonds and will be issued and secured by a pledge of Pledged Assets, prior to the pledge securing Subordinate Lien Bonds heretofore or hereafter issued by the Corporation.

5. The 2005 Series Bonds have been duly authorized, executed and delivered and constitute valid and binding special obligations of the Corporation enforceable in accordance with their terms and the terms of the Resolutions, except to the extent that the enforceability of the 2005 Series Bonds may be limited by applicable bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights. Such 2005 Series Bonds are secured in the manner and to the extent prescribed by the Resolutions and are entitled to the equal benefit, protection and security of the provisions, covenants and agreements set forth in the Resolutions with respect to Senior Lien Bonds.

6. The 2005 Series Bonds shall not be deemed to constitute a debt, liability or obligation of the State or of any political subdivision thereof or a pledge of the faith and credit of the State or of any political subdivision thereof but shall be payable solely from the revenues and other funds provided therefor under the Resolutions.

7. The interest on the 2005 Series Bonds is not excluded from the gross income of the owners thereof for either federal or State of South Carolina income tax purposes.

8. The principal amount of the 2005 Series Bonds together with the Outstanding principal amount of Bonds, notes or other obligations of the Corporation will not exceed in aggregate principal amount any limitation thereon imposed by law.

Very truly yours,

By: \_\_\_\_\_  
A Member of the Firm

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