





# Connecticut Higher Education Supplemental Loan Authority (CHESLA)

## 2008 Annual Report

<b>CHESLA</b> <b>CT FELP</b>				Connecticut Higher Education Supplemental Loan Authority			
				342 North Main Street ■ West Hartford, Connecticut 06117 ■ <a href="http://www.chesla.org">www.chesla.org</a> CHESLA is a not-for-profit, political subdivision of the State of Connecticut			
Affordable On-line Application		Compare for yourself: <b>CHESLA CT FELP Student Loan</b> <b>6.99% Fixed Interest Rate<sup>1</sup></b> 3% Reserve Fee					
<b>LOW</b> <b>FIXED</b> <b>Interest Rate</b>		<b>Federal Stafford Loan</b> 6.0% (sub.) – 6.8% (unsub.) Fixed rate of interest (7/1/08) <sup>2</sup> Fees vary by lender		<b>Federal Plus Loan</b> 8.5% <sup>3</sup> Fixed rate of interest (7/1/08) <sup>2</sup> Fees vary by lender		<b>Other Private Loans</b> Variable Rates of Interest <sup>2</sup> Fees vary by lender	
<b>6.99% Fixed Interest Rate<sup>1</sup></b>							
Quick Approval <a href="http://www.chesla.org">www.chesla.org</a> Loan Hotline (800) 935-2275		Simple and Easy		<sup>2</sup> By discount program		<sup>3</sup> 7.9% Direct Plus Loan	
<sup>1</sup> APR (accounts for 3% reserve fee) ranges from 7.37% to 7.51% over the life of the loan. Note – APR and Fees for other lenders vary by repayment terms. Consult the lender for actual terms.							

Connecticut Family Education Loan Program  
**CT FELP**  
[www.chesla.org](http://www.chesla.org)

“Celebrating Twenty-six Years of Helping Students and their Families  
Finance a College Education”

Connecticut Higher Education Supplemental Loan Authority

CHESLA

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# Providing Access for Students

CHESLA (the “Authority”) was established by Public Act No. 82-313, codified as Chapter 187b of the General Statutes of the State of Connecticut, Sections 10a-221 through 10a-246, inclusive, as amended (the “Act”). The purpose of the Act is “to provide a measure of financial assistance to students in or from the state, their parents and others responsible for the cost of their education and an alternative method to enable Connecticut institutions for higher education to assist qualified students to attend such institutions.” The Authority is submitting this annual report in accordance with Sections 1-123 and 10a-240 of the Connecticut General Statutes.

## Authority Members

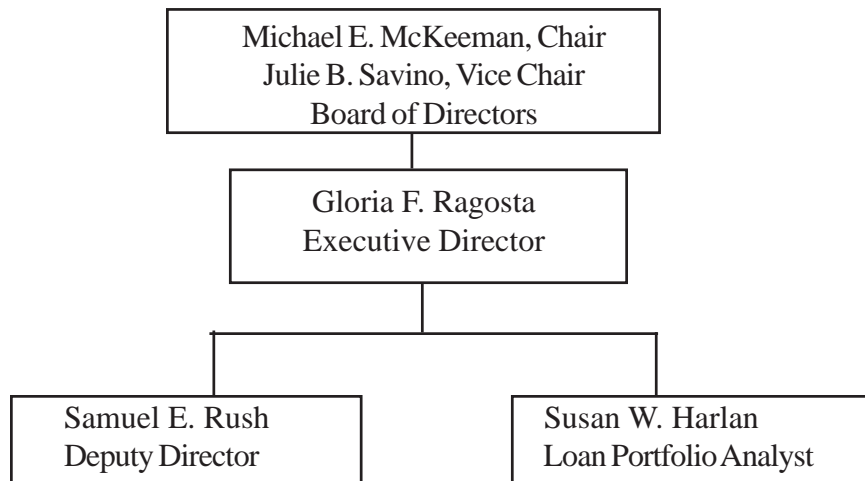
The State Treasurer Denise Nappier, Secretary of the Office of Policy and Management (OPM) Robert L. Genuario and Commissioner of Higher Education Michael Meotti serve as ex-officio members of the Authority. The remaining five members are appointed by the Governor based on their qualifications in the area of higher education and/or public finance, as specified in Section 4 of the Act.

During the year ended June 30, 2008, the following individuals served as Authority members:

<u>Name</u>	<u>Expiration of Term</u>	<u>Statutory Qualifications</u>
William J. Pizzuto	2012	Employee of constituent unit of state higher education system
Julie B. Savino	2011	Experience in higher education loan finance
Kathleen Woods	2011	Experience in higher education loan finance
Delores P. Graham	2009	Retired employee/trustee of institution for higher education
Michael E. McKeeman	2014	Experience in state and municipal finance

# CHESLA Chair and Staff

On March 16, 1999, Governor John G. Rowland nominated Mr. Michael McKeeman for appointment as Chairman of the Authority. This appointment was confirmed by the General Assembly during its 1999 Regular Session and Mr. McKeeman was reappointed during the 2004 Regular Session.



## Authority Activities

Between July 1, 2007 and June 30, 2008, the Authority held four regular meetings and two special meetings.

At its special meeting on July 25, 2007:

- The Authority approved a revised bond resolution allowing up to a \$600,000 contribution from the Authority Operating Fund to the 2007 Cost of Issuance for the purpose of reducing the loan rate.
- The Authority approved a motion to ratify the recommendations of the Bond Committee to pay Goldman Sachs an underwriter fee of \$7.75 per/\$1,000 bond and to pay \$15,000 from the Cost of Issuance Fund for the expense of an accountant to verify CHESLA's cashflow calculations.
- The Authority approved a motion to authorize the Bond Committee to reduce the Administrative Fee to no lower than 10% to help reduce the loan rate for the 2007 bond deal.

At its meeting on September 25, 2007:

- Ms. Savino was re-appointed as Vice Chair of the Authority.
- A copy of the 2006 state audit was given to the Board. There were two minor recommendations (one concerning a new consulting agreement affidavit and the other to

September 25, 2007(continued)

provide more detailed written procedures to Firstmark Services) which were already implemented by the staff. There was also a notation that the Authority had addressed the prior audit recommendations by instituting policy changes.

- The Authority approved its 2007 Annual Report.
- The Authority held an audit committee meeting in compliance with the CHESLA Sarbanes-Oxley policy regarding audit practices.
- The Authority approved its FY 2007 CHESLA Financial Statements and Management and Discussion Analysis.
- The Authority approved a Resolution to ratify the actions taken by the Bond committee and the executive director with respect to the 2007 bond deal.
- The Authority adopted a revised Affirmative Action policy.
- The Authority approved a motion authorizing a \$7,500 payment from the 2007 revenue account to Firstmark Services for programming costs related to the 2007 loan fund.

At its special meeting on November 9, 2007:

- The Board members met in New York with Goldman Sachs to review possible financing options and trends in the private loan industry.
- The Board met with both rating agencies and an expert on SWAP bond deals to help prepare for its next bond deal.

At its meeting on December 18, 2007:

- The Authority held its annual meeting with its Advisory Committee.
- The Authority approved a motion to appoint the 2008 Advisory Committee members.
- The Authority approved its meeting dates for 2008.
- The Authority reviewed the FY 2008 first quarter financial statements.
- The Authority authorized a payment of \$6,500 from the bond revenue funds to Attorney Patrick Kennedy, as part of a negotiated settlement, for the return of defaulted borrower files and his removal from court proceedings involving the accounts.
- The Authority approved a motion authorizing a payment up to \$4,250 for Firstmark Services to update documents disclosing Connecticut's Financial Aid Code of Conduct.
- The Authority approved a resolution appointing a Collection Company Selection Committee and an RFP for collection.

At its meeting on March 25, 2008

- The Authority approved a Resolution establishing the Auditor Selection Committee.
- The Authority approved a Resolution appointing the Bond and Legal Counsel Selection Committee.
- The Authority approved its FY 2008 Third Quarter Financial Statements.
- The Authority approved a Resolution appointing an Underwriter Selection Committee.
- The Authority approved a Resolution appointing an Arbitrage Rebate Selection Committee.

March 25, 2008 (continued)

- The Authority approved a Resolution ratifying the Collection Company Slection Committee recommendation to reappoint Collection Company of America to serve as CHESLA's collection agency for a period of three years.

At its meeting on June 17, 2008

- The Authority approved the CHESLA Budget and Plan of Operations for FY 2009.
- The Authority approved a motion to authorize the payment of \$3,750 to Firstmark for programming (if needed for recycling loans).
- The Authority approved a motion to authorize the payment of \$2,000 to Firstmark for its 2007 SAS-70 report to be paid from the Authority's Bond Revenue accounts.
- The Authority approved a resolution ratifying the Audit Selection Committee's recommendation to reappoint Simione Macca & Larrow, LLP to serve as auditor for one year and to issue an RFP for auditor the following year.
- The Authority approved the eligibility of Alternate Route to Certification students to borrow CT FELP loans.
- The Authority approved a resolution ratifying the Bond and Legal Counsel Selection Committee's recommendation to reappoint Day Pitney, LLP to serve as the Authority's bond and legal counsel for three years.
- Michael McKeeman was reappointed by Governor Rell to the Authority for another six-year term.

# Administrative Activities

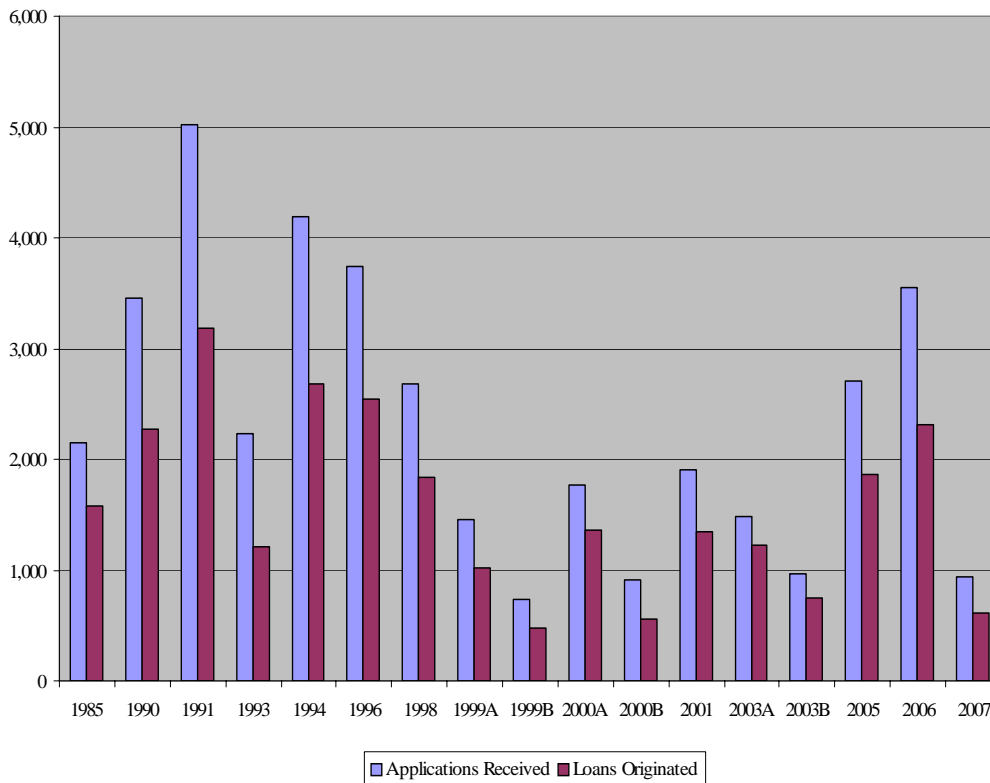
The Act requires the Authority to appoint an Advisory Committee of up to 15 persons to meet with members of the Authority at least once a year. During the year ended June 30, 2008, the following individuals served as members of the Advisory Committee: Edwin Below, Catherine Boone, Martin L. Budd, Joseph Martinkovic, Frank R.A. Resnick, Kristin White, Richard Savage, Joe Popevis, Dominic Yoia, and David Welsh. The Advisory Committee met with the Authority on December 18, 2007 as required by the Act. The Authority retained the firm of Simone Macca & Larrow to be its independent auditor for the Fiscal Year Ended June 30, 2008. (The audit is attached as Exhibit A.)

## Financial Assistance Activities

Funding for the CT Family Education Loan Program (CT FELP)

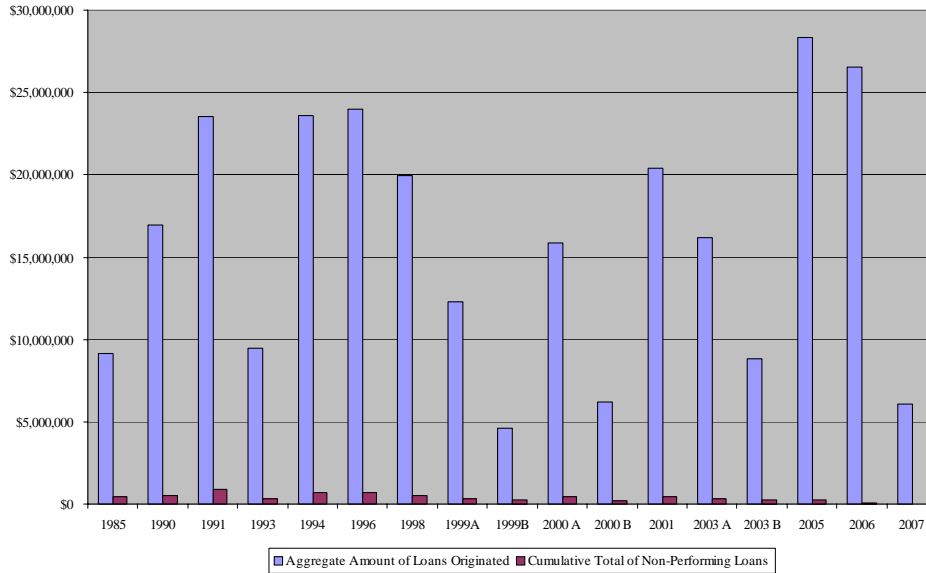


**CT FELP Application and Origination Data**  
[All series are fixed (simple interest) rates]



**Applications Received** - 1985 (2,150), 1990 (3,462), 1991(5,022), 1993 (2,226), 1994 (4,193), 1996 (3,737), 1998 (2,681), 1999A (1,460), 1999B (739), 2000A (1,771), 2000B (915), 2001 (1,900), 2003A (1,484) 2003B (964) 2005 (2,710) 2006 (3,552) and 2007 (939).  
**Loans Originated** - 1985 (1,575), 1990 (2,275), 1991 (3,181), 1993 (1,215), 1994 (2,676), 1996 (2,542), 1998 (1,883), 1999A (1,014), 1999B (475), 2000A (1,360), 2000B (564), 2001 (1,341), 2003A (1,225), 2003B (743), 2005 (932) 2006 (2,308) and 2007 (617).

**CT FELP Origination Amount and Non-Performing Loans**



**Aggregate Amount of loans Originated** - 1985 (\$9,138,627), 1990 (\$16,978,127), 1991 (\$23,509,883), 1993 (\$9,457,002), 1994 (\$23,601,441), 1996 (\$24,002,867), 1998 (\$19,989,330), 1999A (\$12,283,780), 1999B (\$4,628,969), 2000A (\$15,853,387), 2000B (\$6,200,067), 2001 (\$20,433,303), 2003A (\$16,212,316), 2003B (\$8,813,427) 2005 (\$28,321,052) 2006 (\$26,527,184) and 2007 (\$6,091,887).

**Cummulative Total of Non-Performing Loans** - 1985 (\$443,646), 1990 (\$504,091), 1991 (\$876,921), 1993 (\$341,183), 1994 (\$682,054), 1996 (\$734,878), 1998 (\$501,440), 1999A (\$347,938), 1999B (\$265,607), 2000A (\$449,186) 2000B (\$175,184), 2001A (\$463,445), 2003A(\$307,852), 2003B (\$245,778), 2005 (\$241,565), 2006 (\$52,375) and 2007 (\$9,000). Total non-performing loans \$6,642,743.

**Non-Performing loan Rate** - 1985 (4.85%), 1990 (2.97%), 1991 (3.73%), 1993 (3.61%), 1994 (2.89%), 1996 (3.06%), 1998 (2.51%), 1999A (2.83%), 1999B (5.74%), 2000A (2.83%), 2000B (2.83%), 2001 (2.27%), 2003A (1.90%), 2003B (2.79%), 2005A(0.85%), 2006 (0.20)% and 2007 (0.15%). Total net non-performing loan rate (2.44%)

Financial assistance activity information was compiled from student loans originated during the following periods:

- 1985 Series A Bonds - October 1, 1985 to October 30, 1988;
- 1990 Series A Bonds - August 22, 1990 to September 6, 1991
- 1991 Series A Bonds - September 12, 1991 to August 5, 1993;
- 1993 Series A Bonds - August 12, 1993 to August 20, 1994;
- 1994 Series A Bonds - August 26, 1994 to September 20, 1996;
- 1996 Series A Bonds - October 5, 1996 to September 5, 1998;
- 1998 Series A & B Bonds - September 11, 1998 to June 30, 1999;
- 1999 Series A & B Bonds - October 27, 1999 to November 24, 2000;
- 2000 Series A & B Bonds - December 15, 2000 to May 1, 2002; and
- 2001 Series A Bonds - May 5, 2002 to Aug. 11, 2004 (includes recycling)
- 2003 Series A & B Bonds - July 23, 2003 to August 10, 2005
- 2005 Series A& B Bonds - August 10, 2005 to June 30, 2006
- 2006 Series A Bonds - August 17, 2006 to June30, 2007
- 2007 Series A Bonds - August 23, 2007 to June 30, 2008

Of the 1,575 students receiving loans disbursed from the proceeds of the 1985 bond sale, 1,499 students attended in-state institutions and received a total of \$8,510,327. Seventy-six students attended out-of-state institutions and received a total of \$628,300. A table showing the total number and amounts of loans disbursed from proceeds of the 1990 through 2007 bond sales is attached as Exhibit B.



A copy of the 2008 CT FELP Program Manual is attached as Exhibit C.

## Bond Issuance

The Authority issued new bonds on August 23, 2007. The 2007 Bonds were sold through a negotiated underwriting with Goldman Sachs as the underwriter and PFM as the Authority's financial advisor.

As of June 30, 2008, the Authority had issued Revenue Bonds and Revenue Refunding Bonds in the aggregate principal amount of \$366.840 million. The principal amounts of the Authority's outstanding bonds totalled \$153.880 million, including:

<u>Principal Issued</u>	<u>Principal Outstanding</u>
1983 Series - \$15,500,000	\$0
1985 Series - \$15,500,000	\$0
1990 Series A - \$18,000,000	\$0
1990 Series B - \$ 420,000	\$0
1991 Series A - \$25,000,000	\$0
1991 Series B - \$ 445,000	\$0
1992 Series A - \$ 6,600,000	\$0
1993 Series A - \$10,000,000	\$0
1994 Series A - \$25,000,000	\$0
1996 Series A - \$25,000,000	\$0
1998 Series A - \$15,000,000	\$ 2,455,000
1998 Series B - \$ 3,560,000	\$ 800,000
1999 Series A - \$12,500,000	\$ 3,375,000
1999 Series B - \$ 4,390,000	\$ 1,565,000
2000 Series A - \$16,410,000	\$ 4,480,000
2000 Series B - \$ 5,975,000	\$ 2,245,000
2001 Series A - \$25,000,000	\$16,515,000
2003 Series A - \$18,000,000	\$14,150,000
2003 Series B - \$12,915,000	\$ 7,320,000
2005 Series A - \$31,455,000	\$22,105,000
2005 Series B - \$ 5,900,000	\$ 5,900,000
2006 Series A - \$33,270,000	\$31,970,000
<u>2007 Series A - \$41,000,000</u>	<u>\$41,000,000</u>
Total	\$153,880,000

The State's contingent liability, in connection with the 1996, 1998, 1999, 2000, 2001, 2003, 2005 A, 2006A and 2007 Bonds, is the Special Capital Reserve Fund requirement for such Bonds, as defined in Connecticut General Statutes Section 10a-232, funded as of June 30, 2008 in the aggregate amount of \$12.6 million.

## Projected Activities

The Authority provided assistance in the form of Education Loans from the remaining proceeds of its 2007 Series Bonds in the amounts of approximately \$6.1 million during the remainder of the fiscal year through June 2008 under the CT FELP Program. The Authority plans to issue \$45 million in new bonds in November 2008 with approximately \$40.5 million in loan funds for 2008.

# Affirmative Action

The Authority's affirmative action policy statement, as required by Connecticut General Statutes Section 10a-224(h)(2): The Authority is an equal opportunity employer. It is the policy of CHESLA to provide equal employment opportunity at all times in accordance with State Statutes. Equal employment opportunity is defined as the administration of all personnel policies - employment applications; job qualifications; job specifications; recruitment practices; job structuring; orientation; grievance procedures; evaluation; layoffs and termination - so that there is no discrimination based on race, ethnicity, religion, age, gender, sexual orientation, marital status, civil union status, national origin, ancestry or disability. Notwithstanding the foregoing, it shall be the policy of CHESLA to take positive action, with conviction and effort, to achieve the full and fair participation of protected class persons.

In addition to its non-discrimination policies and practices, the Connecticut Higher Education Supplemental Loan Authority shall require a statement of non-discrimination from all entities with which it enters into contractual or other business arrangements.

As of June 30, 2008, CHESLA had two employees: an Associate Director (1 African -American male) and a Loan Portfolio Analyst (1 Caucasian female).



## Community Service Activities

The Authority participated in one early college awareness program in the State. In addition, CHESLA sponsored four GEAR UP student by awarding annual \$2,500 "Morrison Beach Scholarships." The total award for the students equals \$10,000 over four years of college. The students are enrolled in the University of Connecticut, Southern Connecticut State University, and two attended University of New Haven. Annual scholarship allocations are based on academic performance and continued enrollment.

## Payments in Excess of \$5,000

Firms paid in excess of \$5,000 in payments of loans, grants, services (excluding loans for education):

Amtec	-	Loan Yield/Arbitrage Rebate
Ballard Spahr	-	Underwriter's Counsel
Beers, Hammerman & Co.	-	Accountant
Collection Company of America	-	Collection Agency
Connecticut Conference of Independent Colleges	-	Personal Services/Shared Office Space
Education Finance Council	-	Professional Membership
Earnst & Young	-	Audit Underwriter's Cashflows
Firstmark Services	-	Origination/Loan Servicing
Goldman Sachs	-	Underwriter
Day Pitney LLP	-	Legal/Bond Counsel
Fitch	-	Rating Agency
Howard Lee Schiff P.C.	-	Collection Attorney
Imagemaster	-	Printing Official Statement - Bond deal
MBIA	-	Bond Insurance
Moody's	-	Rating Agency
Kutak Rock	-	Bond Insurer's Counsel
NCHELP	-	Professional Membership
PFM	-	Financial Advisor
R.C. Knox & Co., Inc.	-	Insurance Broker/Insurance Fees
Shipman & Goodman	-	Trustee Counsel
Simione Macca & Larrow	-	Auditor
Small Business Services	-	Health Insurance
U.S. Bank National Association	-	Trustee
Vanguard Fiduciary Trust Co.	-	Pension Plan

# Exhibit A

## Financials



**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY**

**Financial Statements**

June 30, 2008 and 2007

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY**

West Hartford, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Higher Education Supplemental Loan Authority ("Authority"), a component unit of the State of Connecticut, as of and for the years ended June 30, 2008 and 2007, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits 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 of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Connecticut Higher Education Supplemental Loan Authority as of June 30, 2008 and 2007, and the respective changes in financial position and cash flows thereof for the years 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 September 29, 2008 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 important for assessing the results of our audits.

Board of Directors  
**CONNECTICUT HIGHER EDUCATION**  
**SUPPLEMENTAL LOAN AUTHORITY**  
Page 2

The Management's Discussion and Analysis as listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Rocky Hill, Connecticut  
September 29, 2008

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Connecticut Higher Education Supplemental Loan Authority (CHESLA) is a public instrumentality and political subdivision of the State of Connecticut (the "State"). CHESLA provides financial assistance in the form of education loans to students in or from the State, their parents or others responsible for the cost of their education and provides an alternative method to enable institutions of higher education in the State to assist qualified students to attend such institutions. CHESLA is authorized to issue tax-exempt bonds, the proceeds of which are used to fund education loans to applicants meeting certain eligibility requirements. The repayments of such loans service the debt on CHESLA bonds. CHESLA, in connection with the issuance of its bonds, has made certain covenants with respect to such loans, including a covenant to do or cause to be done all such acts and things necessary to receive and collect all revenues due with respect to such loans. CHESLA bonds are further secured by a special capital reserve fund.

The following Management's Discussion and Analysis (MD&A) of the State of Connecticut Higher Education Supplemental Loan Authority ("the Authority") activities and financial performance provides an introduction to the audited financial statements for the fiscal year ended June 30, 2008 as compared to June 30, 2007. Following the MD&A are the basic financial statements of the Authority together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements



**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL POSITION SUMMARY**

The Authority's fiscal year 2008 assets increased by \$26.4 million or 18.4% over fiscal year 2007 and liabilities increased by \$25 million or 18.9% over fiscal year 2007. Total assets exceeded liabilities by \$13.1 million in 2008 as compared to \$11.6 million for 2007, or a net increase of \$1.5 million.

	BALANCE SHEETS	
	(In Thousands)	
	2008	2007
<b>ASSETS:</b>		
Current unrestricted assets	\$ 13,268	\$ 14,843
Current restricted assets	44,376	32,571
Total Current Assets:	57,644	47,414
<b>Non-Current assets:</b>		
Restricted Investments	12,300	9,500
Loans receivable, net of current portion	97,374	84,474
Bond issuance costs, net	2,837	2,328
Total Non-Current Assets	112,511	96,302
<b>TOTAL ASSETS</b>	<b>\$ 170,155</b>	<b>\$ 143,716</b>
<b>LIABILITIES:</b>		
Current liabilities	\$ 7,217	\$ 8,897
Long-term liabilities	149,882	123,190
<b>TOTAL LIABILITIES</b>	<b>157,099</b>	<b>132,087</b>
<b>NET ASSETS:</b>		
Unrestricted	13,056	11,629
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 170,155</b>	<b>\$ 143,716</b>

**FINANCIAL HIGHLIGHTS**

The following is an overview of significant changes within the Balance Sheets during the past fiscal year:

**Assets**

Current unrestricted assets decreased by \$1,575,000 or 10.6%. This was due primarily to the decrease of the current portion of loans receivable, which resulted from collections received in 2008, and the \$24.1 million of FY 2008 loan issuances being primarily long-term offset by existing loans becoming more current.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FINANCIAL HIGHLIGHTS (Continued)**

Current restricted assets increased by \$11.8 million or 36.2%. This increase was primarily the result of a net increase in cash and cash equivalents and investments of \$11.8 million from the 2007 bond series offset by loans issued in FY 2008.

Non-current assets increased by \$16.2 million or 16.8%. This was primarily due to:

- Loans receivable increased by \$12.9 million because of new loans associated with the 2006 and 2007 bond offerings having a greater non-current portion offset by existing loans becoming more current.
- Restricted investments increased by \$2.8 million because of the 2007 Series Special Capital Reserve required as part of the bond offering.

**Liabilities**

Current liabilities decreased by \$1.7 million or 19% as compared to June 30, 2007, due primarily to the current payment obligations of bonds payable.

Long-term liabilities increased by \$26.7 million or 21.7% as compared to June 30, 2007, due to the issuance of the 2007 Series bonds offset by required principal payments on existing bonds.

**SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS**

A summary of operations and changes in net assets for the fiscal year ended June 30, 2008, and the amount and percentage of change in relation to prior fiscal year amount is as follows:

STATEMENTS OF REVENUES, EXPENSES  
AND CHANGES IN NET ASSETS

(In Thousands)

Fiscal Years Ending June 30,

	2008	2007
Operating revenues	\$ 11,178	\$ 10,289
Operating expenses	9,751	8,733
Increase in Net Assets	\$ 1,427	\$ 1,556

Operating revenues increased in fiscal year 2008 by \$0.9 million or 8.6% over fiscal year 2007, due primarily to the increase in interest earning on loans receivable due to the \$24.1 million in new loans issued during FY 2008. Interest earning on investments also contributed to the

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS (Continued)**

operating revenue increase as newer investments associated with the 2007 Series earned a higher interest crediting rate.

Operating expenses also increased during fiscal year 2008 by \$1.0 million or 11.6% compared to fiscal year 2007. This was primarily due to an increase in interest expense.

**SUMMARY OF REVENUE**

A summary of revenues for the fiscal year ended June 30, 2008, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2008</u>	<u>Percent of Total</u>	<u>2007</u>	<u>Increase/ (decrease) from 2007</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest income on loans receivable	\$ 7,327	65.5%	\$ 7,034	\$ 293	4.2%
Interest income on investments	2,890	25.9%	2,417	473	19.6%
Administrative fees	955	8.5%	838	117	14.0%
Other operating income	6	0.1%	-	6	100.0%
Total operating revenues	<u>11,178</u>	<u>100.0%</u>	<u>10,289</u>	<u>889</u>	
<b>TOTAL REVENUES</b>	<u>\$ 11,178</u>	<u>100.0%</u>	<u>\$ 10,289</u>	<u>\$ 889</u>	<u>8.6%</u>

The following discusses the major changes in operating revenues of the Authority:

- Interest income on loans receivable, which represents interest income from educational loans, increased by 4.2% or \$0.3 million due to the \$24.1 million in new loan issuances during FY 2008.
- Interest income on investments, increased by \$0.5 million or 19.6% from fiscal year 2007. The increase is due to higher rates of return on investment balances in 2008.
- Administrative fees increased by \$0.1 million or 14%. These fees are based on Authority income from a percentage of originations and principal outstanding from the various bond deals. The increase is due to the addition of the 2007 bond series as well as the amount of loan issuances in FY 2008.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SUMMARY OF EXPENSES**

A summary of expenses for the fiscal year ended June 30, 2008, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	2008	Percent of Total	2007	Increase/ (decrease) from 2007	Percent Increase/ (decrease)
Operating:					
Interest expense	\$ 7,141	73.2%	\$ 6,118	\$ 1,023	16.7%
Administrative fees	955	9.8%	838	117	14.0%
Loan collection fees	524	5.4%	602	(78)	-13.0%
Amortization of bond issuance costs	479	4.9%	480	(1)	-0.2%
General and administrative expenses	287	2.9%	287	-	0.0%
Salaries	118	1.2%	116	2	1.7%
Professional fees	102	1.1%	121	(19)	-15.7%
Provision for loan losses	50	0.5%	132	(82)	-62.1%
Arbitrage rebate expense	49	0.5%	-	49	100.0%
Trustee fees	46	0.5%	40	6	15.0%
<b>TOTAL OPERATING EXPENSES</b>	<b>\$ 9,751</b>	<b>100.0%</b>	<b>\$ 8,734</b>	<b>\$ 1,017</b>	<b>11.6%</b>

The Authority's expenses increased from fiscal year 2007 to 2008 by approximately \$1 million or 11.6% in total. Notable differences between the years include:

- Interest expense increased by \$1 million or 16.7% due to the 2007 bond deal.
- Administrative fees increased by \$0.1 million or 14% primarily due to the loan issuances in FY 2008.
- Arbitrage rebate expense increased by \$49,129 due to the increase in the rebatable arbitrage liability of the 2006 Series bonds as compared to June 30, 2007.
- Professional fees decreased by \$18,360 due primarily to reduced legal fees attributable to the IRS 2% yield calculation.
- Provision for loan losses decreased by \$82,000 primarily due to improving historical collection results.
- Loan collection fees decreased by \$78,481 or 13%, due to a reduction in collection fees starting with a new collection contract in February 2008.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**SUMMARY OF CASH FLOW ACTIVITIES**

The following is a summary of the major sources and uses of cash and cash equivalents for the two most recent fiscal years. Cash equivalents are considered cash-on-hand, bank deposits and highly liquid investments with an original maturity of three months or less.

STATEMENTS OF CASH FLOWS		
(In Thousands)		
Fiscal Years Ending June 30,		
	2008	2007
Cash flows from operating activities	\$ (9,080)	\$ (9,322)
Cash flows from investing activities	(13,616)	(1,814)
Cash flows from non-capital financing activities	23,621	12,208
Net increase in cash and cash equivalents	925	1,072
Cash and cash equivalents:		
Beginning of year	8,106	7,034
End of year	\$ 9,031	\$ 8,106

The Authority's available cash and cash equivalents increased \$0.9 million from \$8.1 million at the end of fiscal year 2007 to \$9 million at the end of fiscal year 2008 as explained below:

- Cash flows from operating activities represents the net difference between cash received from loan payments, loan interest and investment interest, and cash paid for loans disbursed, bond interest, and other operating expenses. For fiscal year 2008, this net use of cash was \$242,000 less than fiscal year 2007 and was mainly due to an increase in interest and other income and reduction of other expenses offset by an increase in bond interest paid.
- Cash flows from investing activities represents the net difference between the cash proceeds from maturing investments and the cash disbursements for the purchase of investment securities. For fiscal year 2008, this net use of cash was \$11.8 million more than fiscal year 2007 and was mainly due to the purchase of investments associated with the 2007 bond issuance offset by sales of investments to facilitate loan disbursements.
- Cash flows from non-capital financing activities represents the net difference between total proceeds from bond issuances, versus the costs of issuance and scheduled payments on bond principal. For fiscal year 2008, this net source of cash was \$11.4 million higher than fiscal year 2007 and was mainly due to the issuance of the 2007 series bonds offset by regular principal payments on existing bonds.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
BALANCE SHEETS  
June 30, 2008 and 2007**

<b>ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>CURRENT ASSETS</b>		
Unrestricted assets:		
Cash and cash equivalents	\$ 1,731,714	\$ 1,797,221
Current portion of loans receivable, net of allowances for loan losses of \$2,252,000 in 2008 and \$2,202,000 in 2007	10,816,874	12,424,590
Interest receivable on investments	334,252	273,161
Interest receivable on loans receivable	<u>384,716</u>	<u>348,226</u>
<b>Total Unrestricted Assets</b>	<u>13,267,556</u>	<u>14,843,198</u>
Restricted assets:		
Cash and cash equivalents	7,299,382	6,309,592
Investments	37,075,058	26,259,265
Connecticut Higher Education Trust	<u>2,369</u>	<u>2,330</u>
<b>Total Restricted Assets</b>	<u>44,376,809</u>	<u>32,571,187</u>
<b>Total Current Assets</b>	<u>57,644,365</u>	<u>47,414,385</u>
<b>NON-CURRENT ASSETS</b>		
Restricted investments	12,300,000	9,500,000
Loans receivable, net of current portion	97,373,600	84,474,024
Bond issuance costs, net of accumulated amortization of \$2,741,432 in 2008 and \$2,263,129 in 2007	<u>2,837,161</u>	<u>2,327,522</u>
<b>Total Non-Current Assets</b>	<u>112,510,761</u>	<u>96,301,546</u>
<b>Total Assets</b>	<u>\$ 170,155,126</u>	<u>\$ 143,715,931</u>

See notes to financial statements.

<b>LIABILITIES AND NET ASSETS</b>	<u>2008</u>	<u>2007</u>
<b>CURRENT LIABILITIES</b>		
Current portion of bonds payable	\$ 5,838,371	\$ 7,655,781
Accounts payable and accrued liabilities	53,497	92,615
Current portion of arbitrage rebate payable	20,861	19,481
Accrued interest payable	871,281	720,498
Current portion of deferred revenue	<u>432,958</u>	<u>408,387</u>
<b>Total Current Liabilities</b>	<u>7,216,968</u>	<u>8,896,762</u>
<b>LONG-TERM LIABILITIES</b>		
Bonds payable, net of current portion	147,225,577	120,684,989
Arbitrage rebate payable, net of current portion	169,672	121,923
Deferred revenue, net of current portion	<u>2,486,483</u>	<u>2,383,234</u>
<b>Total Long-Term Liabilities</b>	<u>149,881,732</u>	<u>123,190,146</u>
<b>Total Liabilities</b>	<u>157,098,700</u>	<u>132,086,908</u>
<b>UNRESTRICTED NET ASSETS</b>	<u>13,056,426</u>	<u>11,629,023</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 170,155,126</u>	<u>\$ 143,715,931</u>

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY**  
**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
<b>OPERATING REVENUES</b>		
Interest income on investments	\$ 2,890,025	\$ 2,416,856
Interest income on loans receivable	7,327,031	7,034,348
Administrative fees	955,292	837,904
Other operating income	6,000	-
<b>Total Operating Revenues</b>	<b>11,178,348</b>	<b>10,289,108</b>
<b>OPERATING EXPENSES</b>		
Interest expense	7,140,878	6,117,741
Administrative fees	955,292	837,905
Loan collection fees	523,624	602,105
Amortization of bond issuance costs	478,303	480,068
General and administrative expenses	287,370	286,552
Salaries	118,043	115,960
Professional fees	102,192	120,552
Provision for loan losses	50,000	132,001
Arbitrage rebate expense	49,129	-
Trustee fees	46,114	39,999
<b>Total Operating Expenses</b>	<b>9,750,945</b>	<b>8,732,883</b>
<b>CHANGE IN NET ASSETS</b>	<b>1,427,403</b>	<b>1,556,225</b>
NET ASSETS, beginning	11,629,023	10,072,798
NET ASSETS, ending	<b>\$ 13,056,426</b>	<b>\$ 11,629,023</b>

See notes to financial statements.



**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY**

**STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2008 AND 2007**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received for the following:		
Loan payments	\$ 13,068,874	\$ 14,626,590
Interest collected on loans	7,037,872	7,007,530
Interest collected on investments	2,805,166	2,369,807
Other income	961,292	837,904
Total cash received	23,873,204	24,841,831
Cash paid for the following:		
Loans disbursed	(24,112,031)	(25,692,827)
Bond interest	(6,875,342)	(6,113,377)
Other expenses	(1,966,201)	(2,357,500)
Total cash disbursed	(32,953,574)	(34,163,704)
<b>Net Cash Used in Operating Activities</b>	<b>(9,080,370)</b>	<b>(9,321,873)</b>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of restricted investments	27,596,842	31,922,186
Purchase of restricted investments	(41,212,674)	(33,735,999)
<b>Net Cash Used in Investing Activities</b>	<b>(13,615,832)</b>	<b>(1,813,813)</b>
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Issuance of bonds	40,613,427	33,236,000
Bond issuance costs	(987,942)	(827,918)
Payments on bond principal	(16,005,000)	(20,200,000)
<b>Net Cash Provided by Noncapital Financing Activities</b>	<b>23,620,485</b>	<b>12,208,082</b>
Net increase in cash and cash equivalents	924,283	1,072,396
CASH AND CASH EQUIVALENTS, Beginning	8,106,813	7,034,417
CASH AND CASH EQUIVALENTS, Ending	<b>\$ 9,031,096</b>	<b>\$ 8,106,813</b>

See notes to financial statements.

	<u>2008</u>	<u>2007</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Change in net assets	\$ 1,427,403	\$ 1,556,225
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of bond issuance costs	478,303	480,067
Amortization of deferred amount on refunding	110,383	(26,571)
Amortization of bond discount	42,537	21,995
Amortization of bond premium	(38,170)	(38,170)
Provision for loan losses	50,000	132,000
Change in assets and liabilities:		
(Increase) in loans receivable	(11,341,859)	(11,629,760)
(Increase) in interest receivable on investments	(61,091)	(47,049)
Decrease in interest receivable on loans receivable	(36,490)	(26,818)
Increase (decrease) in accounts payable and accrued liabilities	(39,118)	2,980
Increase (decrease) in arbitrage rebate payable	49,129	(23,434)
Increase in accrued interest payable	150,783	70,553
Increase in deferred revenue	127,820	206,109
	<u>                    </u>	<u>                    </u>
<b>Net Cash Used in Operating Activities</b>	<b>\$ (9,080,370)</b>	<b>\$ (9,321,873)</b>

**RECONCILIATION OF CASH AND CASH EQUIVALENTS  
TO THE STATEMENT OF NET ASSETS**

Cash and cash equivalents - unrestricted	1,731,714	1,797,221
Cash and cash equivalents - restricted	7,299,382	6,309,592
	<u>\$ 9,031,096</u>	<u>\$ 8,106,813</u>

**SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION**

Deferred amount on refunding recorded through reduction of bond issuance costs	<u>\$ -</u>	<u>\$ 111,013</u>
Discount on issuance of 2006 Bonds recorded through reduction of issuance of bonds	<u>\$ -</u>	<u>\$ 34,001</u>
Discount on issuance of 2007 Bonds recorded through reduction of issuance of bonds	<u>\$ 386,572</u>	<u>\$ -</u>

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** – The Connecticut Higher Education Supplemental Loan Authority (“Authority”) is a body politic and corporate established in 1982 pursuant to Section 4 of Connecticut Higher Education Supplemental Loan Authority Act, Public Act 82-313 of the Connecticut General Assembly (the Act). For purposes of financial reporting, the Authority is a component unit of the State of Connecticut and the Authority’s financial statements are included in the State’s Comprehensive Annual Financial Report. The Authority was established to assist students, their parents and institutions of higher education to finance the cost of higher education through its Bond funds.

The funds of the Authority are proprietary fund types. Proprietary funds are used to account for governmental activities that are similar to those found in the private sector where the determination of net income is necessary or useful for sound financial administration. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Proprietary funds are accounted for on a cost of services or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with their activity are included on their balance sheet. Accounting principles generally accepted in the United States of America (GAAP) used for proprietary funds are generally those applicable to businesses in the private sector. In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, the Authority applies all GASB pronouncements and all Financial Accounting Standards Board Statements, Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, except those that conflict with GASB pronouncements.

**Authority Operating Fund** – The administrative functions of the Authority are accounted for in the Authority Operating Fund. Revenues in this fund consist of interest income and administrative fees.

**Bond Funds** – Under the Bond Funds, the Authority issues revenue bonds, the proceeds of which are used to provide loans directly to students or other borrowers to assist in the financing of higher education. Revenue in the Bond Funds is derived from interest earned on investments and loans receivable. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 and 2005 Series A and B and 2006 and 2007 Series A bonds were issued. The proceeds from the 2003 Series B bonds were used to refund the 1991 Series A bonds and the 2003 Series 1 bonds. The proceeds from the 2005 Series B bonds were used to refund the 1993 and 1994 Series A bonds. A portion of the proceeds from the 2006 Series A bonds was used to refund the 1996 Series A bonds. The 2003 Series 1 bonds were issued on May 15, 2003 to refund prior obligations of the Authority scheduled to be retired by special mandatory redemption on May 15, 2003. The Pre 2003 Bond Fund is governed by the 1990 Revenue Bond Resolution, as amended, supplemented and restated, pursuant to which all outstanding bonds were issued prior to the 2003 Series A and B bonds. In accordance with the bond resolutions, the Authority internally accounts for each bond issue, which includes

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Bond Funds*** (Continued) –

individual funds as defined by each bond resolution, including but not limited to combinations of some of the following:

Loan Fund, Revenue Fund, Debt Service Reserve Fund and the Special Capital Reserve Fund.

Prior to 1988, these loans were provided for the purpose of assisting in the financing of attendance at eligible colleges and universities in Connecticut under the Family Education Loan Program (CTFELP). In 1988, the program was expanded to include loans to Connecticut residents attending institutions outside the state.

***Connecticut Higher Education Trust (CHET)*** – Under the CHET program, the Authority maintains trust accounts for students in the Authority's early college awareness program.

***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 disclosure 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. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. In connection with the determination of the allowance for loan losses, management has used historical loss experience to make predictions about future losses. As the loan portfolio matures, the Authority adjusts its estimate of expected default rates used to estimate loan losses.

***Revenue Recognition*** – Interest income on loans is recognized based on the rates applied to principal amounts outstanding. The accrual of interest income is generally discontinued when a loan is classified as non-performing (see Note 3). Loans are currently considered non-performing by management when the borrower has defaulted and not made payments for the most recent three months.

***Cash and Cash Equivalents*** – For purposes of the statement of cash flows, the Authority considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consisted of short-term investments in the State Treasurer's Short-Term Investment Fund, which totaled \$8,474,808 and \$7,786,413 as of June 30, 2008 and 2007, respectively.

The State Treasurer's Short-Term Investment Fund is an investment pool managed by the State Treasurer's Office. The fair value of the Authority's position in the pool is the same as the value of the pool shares.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Investments** – In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, the Authority presents all investments at fair value, except for non-participating interest earning investment contracts, which are carried at amortized cost.

The Authority maintains guaranteed investment contracts with AIG Matched Funding Corporation, MBLA, Inc., IXIS Funding (formerly known as CDC Funding Corporation), Society Generale, Natixis, Citigroup, GE Capitol, FSA Capital Management Services and Rabobank International. Under these agreements, all investment transactions must be authorized investments, defined by the bond resolutions as including primarily securities issued or guaranteed by the United States Government, corporate debt obligations having a bond rating of “A” or higher, mortgage participation certificates issued by the Federal Home Loan Mortgage Corporation and mortgage pass-through certificates issued by the Federal National Mortgage Association.

There were no significant investment losses for the years ended June 30, 2008 and 2007.

**Loans Receivable and Allowance for Loan Losses** – Interest on loans receivable is accrued and credited to operations based upon the principal amount outstanding. Loans are placed on non-accrual status when management believes principal or interest on such loans may not be collected in the normal course of business. The allowance for loan losses has been provided through charges against operations based on management’s evaluation of the loan portfolio and maintained at a level believed adequate to absorb potential losses in the loan portfolio. Loans are typically written off against the allowance for loan losses (net of loan recoveries) in the period in which the loans become non-performing and no payments have been made for 12 consecutive months. However, a loan may be written off at any time management believes the repayment of such loan is doubtful. Collections of loans previously written-off are pursued until management believes that further recoveries are doubtful.

**Restricted Assets** – Under provisions of the bond resolutions, certain assets are restricted for the repayment of bond principal and interest, for the issuance of student loans, and anticipated operating costs.

**Bond Issuance Costs** – Bond issuance costs are amortized over the term of the related bonds.

**Arbitrage Rebates** – Under the Internal Revenue Code of 1986 (the Code), the Authority is required to rebate to the federal government certain excess earnings on investments from funds obtained with its tax-exempt bonds, as defined by the Code. The Authority accrues or adjusts for this liability as incurred.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Deferred Revenue* – The Authority charges a 3 percent reserve fee on loans governed by the 2003 Master Revenue Bond Resolution and a 2 percent reserve fee on loans governed by the 1990 Revenue Bond Resolution. The fee, net of origination costs, is deferred and recognized over the life of the loan.

*Income Taxes* – The Authority is exempt from state and federal income taxes.

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS**

*Cash Deposits* – Governmental Accounting Standards Board Statement No. 3, *Deposits with Financial Institutions, Investments, and Repurchase Agreements*, requires governmental organizations to categorize their cash deposits into three levels of risk. Category 1 includes amounts, which are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Category 2 includes amounts, which are collateralized with securities held by the pledging financial institution's trust department or agent in the name of the Authority. Category 3 includes amounts, which are uninsured and uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institutions, or by its trust department or agent, but not in the name of the Authority.

For purposes of this disclosure, cash deposits include bank deposits and exclude cash equivalents (see Note 1). As of June 30, 2008 and 2007, the carrying amount of the Authority's unrestricted and restricted cash deposits totaled \$556,285 and \$320,399, respectively. As of June 30, 2008, the bank balance totaled \$56,797, which was insured by the Federal Deposit Insurance Corporation (Category 1).

*Investments* – In accordance with the provisions of Statement No. 3 of the Governmental Accounting Standards Board, the Authority's investments, including cash equivalents, must be categorized to give an indication of the level of risk assumed at year-end. Category 1 includes investments that are insured or registered in the Authority's name or are held by the Authority or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments, which are held by a counter party's trust department or by its agent in the Authority's name. Category 3 includes uninsured or unregistered securities, which are held by a counter party, its trust department or by its agent, but not held in the Authority's name.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – CASH DEPOSITS AND INVESTMENTS (Continued)**

The Authority's investments consist of guaranteed investment contracts, which are not required to be classified under GASB Statement No. 3 because they are direct contractual investments, and are not securities. The State of Connecticut Short-Term Investments Funds, which are presented as cash equivalents, are pooled investments and are not required to be classified under GASB Statement No. 3.

**NOTE 3 – LOANS RECEIVABLE**

Under the Bond Fund Program, the Authority makes loans to individuals from the proceeds of bonds issued by the Authority. Loans receivable by outstanding bond series as of June 30, 2008 are as follows:

Bond Series	Number	Balance	Interest Rate (%)
1998A&B	875	\$ 4,895,575	7.50
1999A	519	3,859,782	7.50
1999B	217	1,237,976	7.50
2000A	756	5,996,061	7.25
2000B	285	2,033,451	7.25
2001A*	1,118	11,375,189	6.7 & 9.7
2003A	1,040	11,741,652	4.99
2003B**	640	5,888,915	4.99 & 9.2
2005 A&B***	2,453	26,116,978	5.5, 8.25, & 8.4
2006 A****	2,657	28,994,099	6.1, 8.1
2007 A	476	5,943,497	6.99
	<u>11,036</u>	108,083,175	
Add: Non-performing loans		2,359,299	
Less: Allowance for loan losses		<u>(2,252,000)</u>	
		<u>\$ 108,190,474</u>	

- \* Includes loans issued under the 1990 Series A bonds which were refunded by the 2001 Series A bonds.
- \*\* Includes loans issued under the 1991 Series A bonds, which were refunded by the 2003 Series B bonds.
- \*\*\* Includes loans issued under the 1993 and 1994 Series A bonds, which were refunded by the 2005 Series B bonds.
- \*\*\*\* Includes loans issued under the 1996 Series A bonds, which were refunded by the 2006 Series A Bonds.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – LOANS RECEIVABLE (Continued)**

Outstanding loans receivable bear interest at rates ranging from 4.99% to 9.7%.

The Authority currently defines non-performing loans as those on which the borrower has defaulted and not made payments for the most recent three months. As of June 30, 2008 and 2007, non-performing loans totaled \$2,359,299 and \$2,072,116, respectively, for which interest income of approximately \$156,806 and \$142,135, respectively, was not accrued.

The Authority has a policy to write-off uncollectible loans against the allowance for loan losses when certain criteria are met (see Note 1). In connection with this policy, the Authority wrote-off loans receivable of \$268,340 and \$93,487 for the years ended June 30, 2008 and 2007, respectively, which had been previously provided for through the allowance for loan losses. The Authority recovered \$199,653 and \$197,727 in fiscal 2008 and 2007, respectively, in loans receivable and other credits written-off in previous years.

**NOTE 4 – BONDS PAYABLE**

The following is a summary of changes in bonds payable for the years ended June 30, 2008 and 2007.

	<u>Balance at June 30, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2007</u>	
Bonds payable - principal	\$ 115,458,528	\$ 32,989,888	\$ 20,107,646	\$ 128,340,770	
	<u>Balance at June 30, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2008</u>	<u>Amount Due Within One Year</u>
Bonds payable - principal	\$ 128,885,000	\$ 41,000,000	\$ 16,005,000	\$ 153,880,000	\$ 5,955,000
Discount	(589,764)	(386,572)	(42,537)	(933,799)	(44,405)
Premium	515,420	-	38,170	477,250	38,170
Deferred amount on refunding	(469,886)	-	(110,383)	(359,503)	(110,394)
	<u>\$ 128,340,770</u>	<u>\$ 40,613,428</u>	<u>\$ 15,890,250</u>	<u>\$ 153,063,948</u>	<u>\$ 5,838,371</u>

The bonds of the Authority bear interest at rates, varying between 1.7% and 6%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2008 is as follows:



**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – BONDS PAYABLE (Continued)**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 5,955,000	\$ 6,857,907
2010	7,550,000	6,586,966
2011	10,590,000	6,200,879
2012	10,940,000	5,737,859
2013	13,460,000	5,185,410
2014-2018	59,655,000	17,825,237
2019-2023	40,130,000	5,659,698
2024-2028	5,600,000	273,000
	<u>\$ 153,880,000</u>	<u>\$ 54,326,956</u>

Outstanding principal of each bond issue at June 30, 2008 and 2007 is as follows:

	<u>Original Amount</u>	<u>Outstanding June 30, 2008</u>	<u>Outstanding June 30, 2007</u>
1998 Series A, 4 10%-5.15%, due serially from November 15, 2002 to November 15, 2016	15,000,000	2,455,000	3,695,000
1998 Series B, 4%-4.875%, due serially from November 15, 2001 to November 15, 2010	3,560,000	800,000	2,110,000
1999 Series A, 4.7%-6%, due serially from November 15, 2002 to November 15, 2017	12,500,000	3,375,000	3,810,000
1999 Series B, 4.5%-6%, due serially from November 15, 2002 to November 15, 2012	4,390,000	1,565,000	3,050,000
2000 Series A, 4.625%-5.5%, due serially from November 15, 2008 to November 15, 2020	16,410,000	4,480,000	6,360,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	2,245,000	2,245,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000	16,515,000	18,395,000
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	14,150,000	15,750,000

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – BONDS PAYABLE (Continued)**

	<u>Original Amount</u>	<u>Outstanding June 30, 2008</u>	<u>Outstanding June 30, 2007</u>
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	7,320,000	8,920,000
2005 Series A, 2.5%-4.375% due serially from November 15, 2005 to November 15, 2021	31,455,000	22,105,000	25,380,000
2005 Series B, 4% due serially from November 15, 2008 to 2010	5,900,000	5,900,000	5,900,000
2006 Series A, 3.9%-4.8% due serially from November 15, 2007 to 2022	33,270,000	31,970,000	33,270,000
2007 Series A, 4.125%-4.875% due serially from November 15, 2010 to 2024	41,000,000	41,000,000	-
	<u>\$ 225,375,000</u>	<u>\$ 153,880,000</u>	<u>\$ 128,885,000</u>

Each Series A bond is subject to a special mandatory redemption in whole or in part from excess loan payments. During the year ended June 30, 2008 and 2007, the Authority redeemed bonds in the following amounts:

	<u>2008</u>	<u>2007</u>
1996 Series A	-	600,000
1998 Series A	1,170,000	-
1999 Series A	225,000	-
2000 Series A	1,880,000	1,555,000
2001 Series A	1,880,000	1,345,000
2003 Series A	1,000,000	-
2005 Series A	1,800,000	3,875,000
2006 Series A	300,000	-
	<u>\$ 8,255,000</u>	<u>\$ 7,375,000</u>

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – BONDS PAYABLE (Continued)**

*Debt Refunding* – During the year ended June 30, 2007, the Authority issued \$33,270,000 of 2006 Series A bonds with an average interest rate of approximately 4.4% and utilized \$1,750,000 of proceeds from previous bond offerings to refund \$6,755,000 of 1996 Series A bonds with an average interest rate of approximately 5.3%. The primary purpose of the refunding was to refinance current obligations of the Authority on a long-term basis. The refunding decreased the Authority's total debt service payments over the next 11 years by approximately \$1,750,000 and resulted in an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately \$798,674. The reacquisition price exceeded the carrying amount of the old bonds by \$246,113. This amount is being netted against the new bonds and amortized over the remaining original life of the 1996 Series A bonds, which is shorter than the remaining life of the newly issued bonds.

**NOTE 5 – STATE OF CONNECTICUT DEPOSIT REQUIREMENT**

Deficiencies, if any, in the Debt Service Reserve Fund balances within the Bond Funds will be funded from the amount on deposit in the applicable Special Capital Reserve Fund. Both the Debt Service Reserve Fund and the Special Capital Reserve Fund are components of restricted investments. In accordance with the Act, the State must deposit with the Trustee monies necessary to restore the Special Capital Reserve Fund requirement (i.e., an amount equal to the maximum amount of principal and interest becoming due by reason of maturity in any one succeeding calendar year or some lesser amount specified by the Authority in its resolution authorizing the issuance of any such bonds.) As of June 30, 2008 and 2007, the State has not made nor was it required to make any such deposit.

**NOTE 6 – RELATED PARTY TRANSACTIONS**

The Authority shares rental space, office supplies, office equipment and utilities with and shares the services of the Vice President of the Connecticut Conference of Independent Colleges (CCIC). Currently, the executive director of CHESLA serves as Vice President of CCIC. Fees charged to the Authority by CCIC for providing administrative services were \$104,000 and \$102,000 for the years ended June 30, 2008 and 2007, respectively. In addition, the Authority reimbursed CCIC directly for actual general and administrative expenses incurred.

**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – EMPLOYEE BENEFIT PLANS**

The Authority has a Simplified Employee Pension Plan (the Plan). Under the provisions of the Plan, the Authority will make annual contributions directly to the individual retirement accounts (IRA) of all eligible employees, equal to eight percent of the employee's salary. Employees have the right to withdraw amounts from the IRA in accordance with the terms and conditions of the IRA. In 2008 and 2007, the Authority made contributions of \$9,443 and \$9,037, respectively, to the Plan.

**NOTE 8 – DESIGNATED NET ASSETS**

The Board of Directors has designated \$1,000,000 of its unrestricted net assets to be used to maintain future operations required to monitor the loan portfolio should the Authority cease to issue new loans.

**NOTE 9 – RISK MANAGEMENT**

The Authority is exposed to various risks of loss related to torts, theft of, damage to, or destruction of assets, errors or omissions, injuries to employees, or acts of God. The Authority purchases commercial insurance to mitigate loss from these risks. Neither the Authority nor its insurers have settled any claims that have exceeded insurance coverage in the last three years. There was no reduction in insurance coverage from that of the prior year.

**NOTE 10 – CONTINGENCY**

As calculated as of June 30, 2008, the yield on the loan portfolios related to the 1996, 1998, and 2006 bond issues exceeds the amount permitted by the applicable federal income tax regulations. Were the Authority permitted to calculate a single yield for all loan portfolios held within a single trust estate, the Authority's liability would be reduced or eliminated. In September 2007, the Internal Revenue Service (IRS) issued proposed regulations, which would eliminate the Tax Commissioner's authority to allow usage of a blended yield for a bond portfolio in the calculation of the excess loan yield liability. As of the date of our financial statements, the IRS has yet to make a final ruling on an issuer's ability to use a blended yield for this calculation. An additional excess loan yield liability would result if the final ruling eliminates the use of the blended rate, and requires separate yield calculations for each bond issue. However, the Authority has not accrued this liability since the IRS has yet to make a final ruling on this issue, and as a result, an estimate of this liability cannot be determined as of June 30, 2008.

## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION**

To the Board of Directors of the  
**CONNECTICUT HIGHER EDUCATION**  
**SUPPLEMENTAL LOAN AUTHORITY**  
West Hartford, Connecticut

Our report on our audits of the basic financial statements of Connecticut Higher Education Supplemental Loan Authority for the years ended June 30, 2008 and 2007 appears on page 1. These audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information contained on pages 25 to 27 is presented for purposes of additional analysis 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.

Rocky Hill, Connecticut  
September 29, 2008

**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY**  
**COMBINING BALANCE SHEETS**

JUNE 30, 2008 AND 2007

(See Independent Auditors' Report on Supplementary Information)

ASSETS	June 30, 2008			June 30, 2007		
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS	
		PRE 2003	2003		PRE 2003	2003
<b>CURRENT ASSETS</b>						
Unrestricted assets:						
Cash and cash equivalents	\$ 1,731,714	\$ -	\$ 1,731,714	\$ 1,797,221	\$ -	\$ 1,797,221
Current portion of loans receivable, net of allowances for loan losses of \$2,252,000 in 2008 and \$2,202,000 in 2007	-	2,737,482	10,816,874	-	4,422,371	12,424,590
Interest receivable on investments	3,382	31,547	334,252	8,074	50,989	273,161
Interest receivable on loans receivable	-	107,909	384,716	-	134,744	348,226
<b>Total Unrestricted Assets</b>	<u>1,735,096</u>	<u>2,876,938</u>	<u>13,267,556</u>	<u>1,805,295</u>	<u>4,608,104</u>	<u>14,843,198</u>
Restricted assets:						
Cash and cash equivalents	367	898,194	7,299,382	267	872,326	6,309,592
Investments	-	3,342,982	37,075,058	-	6,248,470	26,259,265
Connecticut Higher Education Trust	2,369	-	2,369	2,330	-	2,330
<b>Total Restricted Assets</b>	<u>2,736</u>	<u>4,241,176</u>	<u>44,376,809</u>	<u>2,597</u>	<u>7,120,796</u>	<u>32,571,187</u>
<b>Total Current Assets</b>	<u>1,737,832</u>	<u>7,118,114</u>	<u>57,644,365</u>	<u>1,807,892</u>	<u>11,728,900</u>	<u>47,414,385</u>
<b>NON-CURRENT ASSETS</b>						
Restricted investments	-	1,800,000	12,300,000	-	1,800,000	9,500,000
Loans receivable, net of current portion	-	26,900,198	97,373,600	-	30,223,770	84,474,024
Bond issuance costs, net of accumulated amortization of \$2,741,432 in 2008 and \$2,263,129 in 2007	1,587,108	87,250	2,837,161	1,247,614	114,546	2,327,522
<b>Total Non-Current assets</b>	<u>1,587,108</u>	<u>28,787,448</u>	<u>112,510,761</u>	<u>1,247,614</u>	<u>32,138,316</u>	<u>96,301,546</u>
<b>Total Assets</b>	<u>\$ 3,324,940</u>	<u>\$ 35,905,562</u>	<u>\$ 170,155,126</u>	<u>\$ 3,055,506</u>	<u>\$ 43,867,216</u>	<u>\$ 143,715,931</u>

**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY**  
**COMBINING BALANCE SHEETS (CONTINUED)**

**JUNE 30, 2008 AND 2007**

(See Independent Auditors' Report on Supplementary Information)

	June 30, 2008			June 30, 2007		
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS	
		PRE 2003	2003		PRE 2003	2003
<b>LIABILITIES AND NET ASSETS</b>			<b>TOTAL</b>			<b>TOTAL</b>
<b>CURRENT LIABILITIES</b>						
Current portion of bonds payable	\$ -	\$ 1,105,000	\$ 5,838,371	\$ -	\$ 3,075,000	\$ 7,655,781
Accounts payable and accrued liabilities	8,769	11,478	53,497	43,188	11,717	92,615
Current portion of arbitrage rebate payable	-	20,861	20,861	-	19,481	19,481
Accrued interest payable	-	196,914	871,281	-	248,010	720,498
Due to/(from) other funds	-	-	-	(390,577)	(6,573,923)	-
Current portion of deferred revenue	-	246,780	432,958	-	271,155	408,387
<b>Total Current Liabilities</b>	<b>8,769</b>	<b>1,581,033</b>	<b>7,216,968</b>	<b>(347,389)</b>	<b>(2,948,560)</b>	<b>8,896,762</b>
<b>LONG-TERM LIABILITIES</b>						
Bonds payable, net of current portion	-	30,330,000	147,225,577	-	36,590,000	120,684,989
Arbitrage rebate payable, net of current portion	-	24,317	169,672	-	21,456	121,923
Deferred revenue, net of current portion	-	941,730	2,486,483	-	1,188,510	2,383,234
<b>Total Long-Term Liabilities</b>	<b>-</b>	<b>31,296,047</b>	<b>149,881,732</b>	<b>-</b>	<b>37,799,966</b>	<b>123,190,146</b>
<b>Total Liabilities</b>	<b>8,769</b>	<b>32,877,080</b>	<b>157,098,700</b>	<b>(347,389)</b>	<b>34,851,406</b>	<b>132,086,908</b>
<b>UNRESTRICTED NET ASSETS</b>	<b>3,316,171</b>	<b>3,028,482</b>	<b>13,056,426</b>	<b>3,402,895</b>	<b>9,015,810</b>	<b>11,629,023</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 3,324,940</b>	<b>\$ 35,905,562</b>	<b>\$ 170,155,126</b>	<b>\$ 3,055,506</b>	<b>\$ 43,867,216</b>	<b>\$ 143,715,931</b>

**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY**  
**COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS**

JUNE 30, 2008 AND 2007

(See Independent Auditors' Report on Supplementary Information)

	June 30, 2008			June 30, 2007			
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS		TOTAL
		PRE 2003	2003		PRE 2003	2003	
<b>OPERATING REVENUES</b>							
Interest income on investments	\$ 80,360	\$ 359,140	\$ 2,450,525	\$ 92,772	\$ 419,189	\$ 1,904,895	\$ 2,416,856
Interest income on loans receivable	-	2,528,034	4,798,997	-	2,959,208	4,075,140	7,034,348
Administrative fees	955,292	-	-	837,904	-	-	837,904
Other operating income	6,000	-	-	-	-	-	-
<b>Total Operating Revenues</b>	<u>1,041,652</u>	<u>2,887,174</u>	<u>7,249,522</u>	<u>930,676</u>	<u>3,378,397</u>	<u>5,980,035</u>	<u>10,289,108</u>
<b>OPERATING EXPENSES</b>							
Interest expense	-	1,786,213	5,354,665	-	2,013,360	4,104,381	6,117,741
Administrative fees	-	206,954	748,338	-	240,903	597,002	837,905
Loan collection fees	-	185,490	338,134	-	264,665	337,440	602,105
Amortization of bond issuance costs	260,506	27,296	190,501	225,198	83,874	170,996	480,068
General and administrative expenses	255,591	12,273	19,506	267,713	(1,680)	20,519	286,552
Salaries	118,043	-	-	115,960	-	-	115,960
Professional fees	102,192	-	-	120,552	-	-	120,552
Provision for loan losses	-	54,000	(4,000)	-	(420,999)	553,000	132,001
Arbitrage rebate expense	-	4,241	44,888	-	-	-	-
Trustee fees	-	24,114	22,000	-	23,999	16,000	39,999
<b>Total Operating Expenses</b>	<u>736,332</u>	<u>2,300,581</u>	<u>6,714,032</u>	<u>729,423</u>	<u>2,204,122</u>	<u>5,799,338</u>	<u>8,732,883</u>
<b>CHANGE IN NET ASSETS</b>	305,320	586,593	535,490	201,253	1,174,275	180,697	1,556,225
NET ASSETS, beginning	3,402,895	9,015,810	(789,682)	3,201,642	7,841,535	(970,379)	10,072,798
Elimination of Interfund Balances	(392,044)	(6,573,921)	6,965,965	-	-	-	-
<b>NET ASSETS, ending</b>	<u>\$ 3,316,171</u>	<u>\$ 3,028,482</u>	<u>\$ 6,711,773</u>	<u>\$ 3,402,895</u>	<u>\$ 9,015,810</u>	<u>\$ (789,682)</u>	<u>\$ 11,629,023</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS***

To the Board of Directors of the  
**CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY**  
West Hartford, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Higher Education Supplemental Loan Authority (“Authority”), a component unit of the State of Connecticut, as of and for the years ended June 30, 2008 and 2007, and have issued our report thereon dated September 29, 2008. We conducted our audits 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.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

In planning and performing our audits, we considered the Authority’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Authority’s ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Authority’s financial statements that is more than inconsequential will not be prevented or detected by the Authority’s internal control.

A material weakness is a significant deficiency, or combination of control deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Authority’s internal control.

Our consideration of the internal control over financial reporting was for the purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any

deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

#### **COMPLIANCE AND OTHER MATTERS**

As part of obtaining reasonable assurance about whether the Authority's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of directors and management of the Authority and the State of Connecticut Office of the Comptroller and is not intended to be and should not be used by anyone other than these specified parties.

Rocky Hill, Connecticut  
September 29, 2008

# Exhibit B

## Loans Disbursed 1990-2008



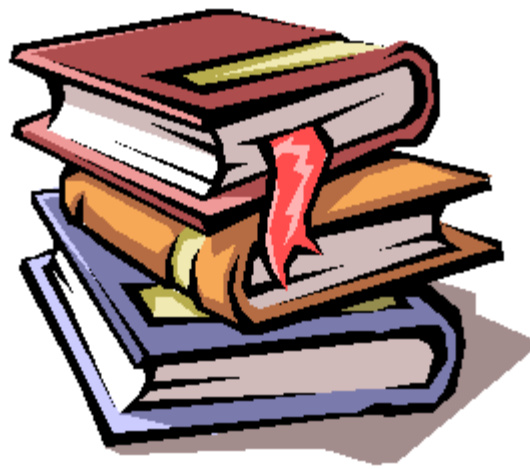
**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY - CT FELP HISTORICAL LENDING**

Institution	Pre-2003 Series AB		2003 Series A		2003 Series B		2005 Series A		2006 Series A		2007 Series A		Total Number Of Students	Total Distribution to Students
	Number of Loans	Amount of Loans	Number of 4.99% Loans	Amount of 4.99% Loans	Number of 4.99% Loans	Amount of 4.99% Loans	Number of 5.50% Loans	Amount of 5.50% Loans	Number of 6.15% Loans	Amount of 6.15% Loans	Number of 6.99% Loans	Amount of 6.99% Loans		
	Disb. ( 1 )	Disb. ( 1 )	Disb. ( 2 )	Disb. ( 2 )	Disb. ( 3 )	Disb. ( 3 )	Disb. ( 4 )	Disb. ( 4 )	Disb. ( 5 )	Disb. ( 5 )	Disb. ( 6 )	Disb. ( 6 )		
Albertus Magnus College	222	\$1,560,074	4	\$35,551	4	\$44,692	10	\$123,675	11	\$138,406	4	\$72,357	255	\$1,974,755
Capital Community College	1	\$3,500	3	\$12,000	0	\$0	2	\$10,544	2	\$27,000	0	\$0	8	\$53,044
Charter Oak State College	10	\$34,425	0	\$0	0	\$0	2	\$18,250	0	\$0	0	\$0	12	\$52,675
Central Connecticut State University	399	\$2,052,575	43	\$377,306	18	\$130,244	76	\$679,672	105	\$679,277	21	\$113,981	662	\$4,033,055
Connecticut College	310	\$3,334,887	1	\$24,000	3	\$35,284	5	\$86,404	0	\$0	0	\$0	319	\$3,480,575
Eastern Connecticut State University	439	\$2,246,962	38	\$258,930	30	\$204,808	46	\$435,874	82	\$439,968	26	\$119,160	661	\$3,705,702
Fairfield University	1,323	\$14,016,580	55	\$789,554	35	\$381,285	81	\$1,471,856	123	\$1,504,909	40	\$440,345	1,657	\$18,604,528
Gateway Community College	3	\$8,725	0	\$0	0	\$0	0	\$0	1	\$4,000	0	\$0	4	\$12,725
Goodwin College, Inc.	0	\$0	0	\$0	0	\$0	0	\$0	2	\$13,285	0	\$0	2	\$13,285
Graduate Institute	0	\$0	4	\$33,724	4	\$40,987	3	\$25,918	6	\$81,305	2	\$21,515	19	\$203,449
Housatonic Community College	1	\$2,734	1	\$3,000	0	\$0	0	\$0	3	\$8,500	0	\$0	5	\$14,234
Rensselaer at Hartford	19	\$124,240	0	\$0	0	\$0	1	\$16,846	0	\$0	0	\$0	20	\$141,086
Lyme Academy of Fine Arts	3	\$27,574	1	\$11,815	0	\$0	4	\$39,438	3	\$17,224	2	\$12,000	13	\$108,051
Manchester Community College	5	\$16,743	0	\$0	2	\$7,000	0	\$0	0	\$0	0	\$0	7	\$23,743
Mitchell College	36	\$342,634	1	\$18,000	1	\$17,000	4	\$94,907	4	\$71,989	0	\$0	46	\$544,530
Naugatuck Valley Community College	8	\$21,000	0	\$0	0	\$0	0	\$0	2	\$4,000	0	\$0	10	\$25,000
Northwestern CT Community College	164	\$2,098,570	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	164	\$2,098,570
Quinnipiac University	1,410	\$12,560,536	102	\$1,431,915	79	\$1,100,584	305	\$5,223,158	365	\$4,727,215	68	\$758,071	2,329	\$25,801,479
Quinnipiac University School of Law	368	\$4,744,832	1	\$16,094	0	\$0	2	\$33,530	5	\$61,620	0	\$0	376	\$4,856,076
Sacred Heart University	1,406	\$13,201,359	290	\$4,259,532	140	\$1,875,224	379	\$6,657,012	296	\$5,172,170	66	\$949,059	2,577	\$32,114,355
Southern Connecticut State University	226	\$1,231,519	22	\$172,611	10	\$77,077	35	\$269,612	51	\$249,687	11	\$45,471	355	\$2,045,977
Saint Joseph College	429	\$3,139,887	16	\$133,927	13	\$118,697	21	\$256,595	28	\$203,379	8	\$47,710	515	\$3,900,195
Saint Vincent College	20	\$132,468	0	\$0	0	\$0	3	\$33,466	1	\$11,000	0	\$0	24	\$176,934
Teikyo Post University	77	\$493,191	6	\$37,296	5	\$44,300	0	\$0	0	\$0	0	\$0	88	\$574,787
Three Rivers Community College	11	\$133,200	1	\$6,386	2	\$7,000	0	\$0	1	\$2,000	0	\$0	15	\$148,586
Trinity College	225	\$2,371,706	4	\$18,760	0	\$0	7	\$85,745	5	\$32,790	1	\$7,500	242	\$2,516,501
Tunxis Community College	15	\$78,588	2	\$7,250	0	\$0	1	\$2,400	1	\$5,000	0	\$0	19	\$93,238
University of Bridgeport	206	\$1,469,031	3	\$28,154	1	\$5,700	2	\$29,886	0	\$0	0	\$0	212	\$1,532,771
University of Conn. - School of Law	17	\$106,462	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	17	\$106,462
University of Conn. - School of Social Work	24	\$129,219	1	\$4,500	0	\$0	0	\$0	0	\$0	0	\$0	25	\$133,719
University of Conn. - Dental/Health Center	89	\$654,242	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	89	\$654,242
University of Conn. - School of Medicine	45	\$309,457	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	45	\$309,457
University of Conn. - Storrs Campus	2,107	\$13,610,768	75	\$607,716	38	\$298,930	51	\$481,586	135	\$987,156	16	\$110,203	2,422	\$16,096,359
University of Hartford	1,971	\$19,430,253	165	\$2,259,133	133	\$1,521,191	292	\$4,571,895	388	\$3,846,396	112	\$967,540	3,061	\$32,596,408
University of New Haven	371	\$2,993,773	14	\$162,404	9	\$83,222	17	\$205,247	12	\$128,508	10	\$96,783	433	\$3,669,937
Wesleyan University	618	\$7,015,771	2	\$37,500	1	\$15,000	10	\$117,534	13	\$203,460	5	\$101,678	649	\$7,490,943
Western Connecticut State University	69	\$381,233	10	\$88,075	5	\$35,800	9	\$94,331	22	\$143,841	11	\$51,818	126	\$795,098
Wilcox College of Nursing	153	\$2,653,678	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	153	\$2,653,678
Yale University - College	1,460	\$18,796,969	98	\$1,707,670	58	\$897,141	131	\$2,292,272	175	\$2,613,232	52	\$681,552	1,974	\$26,988,836
Yale University - Graduate School	77	\$760,842	0	\$0	0	\$0	0	\$0	0	\$0	1	\$38,000	78	\$798,842
Yale University - School of Art	17	\$136,506	0	\$0	0	\$0	1	\$3,000	0	\$0	0	\$0	18	\$139,506
Yale University - School of Drama	4	\$19,235	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	4	\$19,235
Yale University - School of Forestry	6	\$64,650	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	6	\$64,650
Yale University - School of Law	281	\$3,101,938	1	\$4,700	0	\$0	0	\$0	0	\$0	3	\$86,600	285	\$3,193,238
Yale University - School of Medicine	138	\$1,108,608	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	138	\$1,108,608
Yale University - School of Nursing	111	\$856,349	2	\$31,300	1	\$3,586	0	\$0	0	\$0	0	\$0	114	\$891,235
Yale University - School of Management	325	\$3,181,976	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	325	\$3,181,976
Total Disbursed to Students-														
Attending Connecticut Institutions	15,219	\$140,759,469	966	\$12,578,802	592	\$6,944,752	1,500	\$23,360,653	1,842	\$21,377,317	459	\$4,721,343	20,578	\$209,742,336
10.98% Loans	1,575	\$9,138,627.00											1,575	\$9,138,627
Total Disbursed to CT Students-														
Attending Out-of-State Institutions	3,600	\$36,178,687	259	\$3,633,514	151	\$1,868,675	366	\$4,960,399	466	\$5,149,868	158	\$1,370,544	5,000	\$53,161,687
Grand Total	20,394	\$186,076,783	1,225	\$16,212,316	743	\$8,813,427	1,866	\$28,321,052	2,308	\$26,527,184	617	\$6,091,887	27,153	\$272,042,650



# Exhibit C

## 2008 CT FERP Program Manual



CONNECTICUT HIGHER EDUCATION

SUPPLEMENTAL LOAN AUTHORITY

CONNECTICUT

FAMILY EDUCATION LOAN PROGRAM

PROGRAM MANUAL

ADOPTED AUGUST 14, 1996,

AMENDED AS OF DECEMBER 10, 1999

AMENDED AS OF OCTOBER 2, 2001

AMENDED AS OF JULY 30, 2008

\* \* \* \* \*

ADDENDUM, AUGUST 19, 1998

ADDENDUM, OCTOBER 27, 1999

ADDENDUM, NOVEMBER 2, 2000

ADDENDUM, OCTOBER 31, 2001 & NOVEMBER 2, 2001

ADDENDUM, JUNE 30, 2003

ADDENDUM, MARCH 2, 2005

ADDENDUM, AUGUST 2, 2006

ADDENDUM, AUGUST 10, 2007

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Education Loan Interest Rates

## I. GUIDELINES

### A. PURPOSE

The Connecticut Higher Education Supplemental Loan Authority is a public institution founded for the purpose of providing long-term, low interest education loans for Connecticut students attending colleges and universities within the United States of America and its possessions and for out-of-state students attending colleges and universities within Connecticut.

In accordance with the policy and provisions of Chapter 187b of the Connecticut General Statutes, as amended, the Family Education Loan Program seeks to provide long-term education loans for students, parents and others responsible for paying the costs of higher education.

### B. DEFINITIONS

Unless otherwise expressly stated herein or unless the context otherwise requires, the following definitions shall apply with respect to this Manual:

“Act” means the Connecticut Higher Education Supplemental Loan Authority Act, being Chapter 187b of the General Statutes of Connecticut, Sections 10a-221 through 10a-246, inclusive, as heretofore amended and as further amended from time to time.

“Applicant” means any individual who is an Eligible Student and any parent, legal guardian, or sponsor of an Eligible Student attending an Eligible College or University, who completes, signs and submits an Application on behalf of an Eligible Student with the intention of being accepted as a Borrower or Co-Borrower under the Program.

“Application” means an application for a Family Education Loan Program Loan submitted to the Authority in the form prescribed by the Authority from time to time, together with such supporting information and documentation as the Authority may reasonably require prior to a final determination with respect thereto.

“Authority” means the Connecticut Higher Education Supplemental Loan Authority, a body politic and corporate of the State of Connecticut, constituting a public instrumentality created by the Act.

“Bonds” means all bonds issued by the Authority pursuant to the Resolution, or any other bonds of the Authority the proceeds of which are used to fund Loans under the Program.

“Borrower” means any approved Applicant who has agreed to repay a Loan and who obtains a Loan in accordance with the terms and conditions of a Promissory Note (See also Co-Borrower).

“Business Day” means any day other than Saturday, Sunday, or a day on which banks located in the city in which the principal office of the Trustee or the Servicer is located are required or authorized to remain closed.

“Capitalized Interest Loan” means an Education Loan made to an Eligible Graduate Student which provides for the capitalization of interest during the Capitalized Interest Period.

“Capitalized Interest Period” means the period during which interest on a Capitalized Interest Loan is deferred and added to the principal balance of the Capitalized Interest Loan and subject to additional interest, which shall be the period while the Eligible Graduate Student is enrolled in an Eligible College or University and for a six month period after the Eligible Graduate Student is no longer enrolled, which period shall not exceed five (5) years, or such lesser period specified by the Borrower.

“Carry-Over Amount” means, with respect to the proceeds of Bonds of the Authority issued on or before November 15, 2000, \$200,000 of the proceeds of a Series of Bonds which may be used to make loans bearing a stated interest rate equal to (a) the stated rate of interest borne by Loans originated with proceeds of the Series of Bonds most recently issued by the Authority to originate loans pursuant to the Program or (b) the stated rate of interest borne by Loans originated with proceeds of the immediately succeeding Series of Bonds issued by the Authority to originate Loans pursuant to the Program, as may be determined by the Executive Director; with respect to the proceeds of a Series of Bonds issued after November 15, 2000, “Carry-Over Amount” means up to \$500,000 of the proceeds of a Series of Bonds which may be used to make loans bearing such stated rate of interest as the Authority shall determine in accordance with the provisions of the Resolution and any related Tax Compliance Agreement entered into by the Authority in connection with the issuance of such Series of Bonds.

“Co-Applicant” means any Applicant other than the Eligible Student.

“Co-Borrower” means any parent, legal guardian or sponsor of an Eligible Student attending an Eligible College or University who shall be jointly and severally liable with a Borrower for the repayment of a Loan.

“Cost of Education” means the cost of education for a Loan Year as certified by the financial aid administrator at the Eligible College or University and is to include direct and indirect costs associated with attendance at such Eligible College or University, but shall not exceed the amounts determined by the United States Department of Education to be the cost of education, except as otherwise determined by the Executive Director and the Deputy Director, or either of them.

“Current Year Loan” means a Loan other than a Tuition Prepayment Loan and may include a Loan to cover an Eligible Student’s Cost of Education for the next preceding Loan Year.

“Defaulted Loans” means all Loans for which any payment is one hundred and twenty (120) days or more past due.

“Delinquent Loans” means all Loans for which any payment is thirty (30) days or more past due.

“Education Loan Mortgage” means the Deed of Mortgage or similar instrument recorded on the land records where the mortgaged property is located given by a Borrower or Co-Borrower or both to secure an Education Loan, and any related documents.

“Electronic Fund Transfer” means the electronic method of disbursing proceeds of an Education Loan on behalf of an Eligible Student as set forth in an agreement entered into by the Authority, acting by its duly authorized officer, the Servicer and the Trustee.

“Eligible College or University” means any non-profit degree- granting educational institution within the United States of America and its possessions authorized by law to provide a program of education beyond the high school level and (1) described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, or any subsequent corresponding Internal Revenue Code, as from time to time amended, and exempt from Federal income taxation under Section 501(a) of the Internal Revenue Code of 1986, or any subsequent corresponding Internal Revenue Code, as from time to time amended, with respect to a trade or business carried on by such institution which is not an unrelated trade or business, determined by applying Section 513(a) of the Internal Revenue Code of 1986, or any subsequent corresponding Internal Revenue Code, as from time to time amended, to such institution, or a foundation established for its benefit, or (2) a governmental unit.

“Eligible Graduate Student” means an Eligible Student enrolled in and pursuing an educational program leading to a post-baccalaureate certificate or a masters, doctorate or professional degree.

“Eligible Student” means a student who is a resident of Connecticut and who is enrolled in and pursuing an educational program leading to a certificate or an associate or baccalaureate degree at an Eligible College or University on at least a half-time basis as defined by such college or university, who is in good academic standing and is making satisfactory progress, as determined by such college or university, or a student enrolled in the Connecticut Alternate Route to Certification Program.. “Eligible Student” also means a student who is not a resident of Connecticut, but who is enrolled and pursuing such an educational program at an Eligible College or University in Connecticut on at least a half-time basis as defined by such college or university, who is in good academic standing and is making satisfactory progress, as determined by such college or university.

“Interest Only Payment Period” means the period during which a Borrower pays interest only on the Loan, which shall be while the Eligible Student is enrolled in an Eligible College or University and for a six month period after the Student is no longer enrolled, but which period shall not exceed five (5) years.

“Loan” or “Education Loan” means a loan originated by the Authority under the Program and disbursed from the proceeds of the Bonds, including a Capitalized Interest Loan, and any other loan which the Authority determines to originate or administer under the Program.

“Loan Year” means a period of twelve consecutive months, commencing September 1 and ending August 31 each year, in which an Eligible Student is attending an Eligible College or University on at least a half-time basis.

“Net Cost of Education” means the Cost of Education as calculated by the College or University, minus any financial assistance including education loans, work study, grants, scholarships, etc. awarded for the period for which the Loan is requested (Social Security and Veterans’ Administration benefits should not be considered financial aid).

“Prepayable Costs” means tuition and fees, and room and board, as detailed in Section D(3)(a)(i) and (ii) hereof.

“Principal and Interest Repayment Period” means the period during which a Borrower repays the Loan in level monthly installments of principal and interest.

“Program” means the Connecticut Family Education Loan Program described herein.

“Promissory Note” means the note signed by a Borrower and any Co-Borrower(s) (“Borrowers”) promising to pay the Authority and evidencing a Loan, in the form prescribed by the Authority from time to time.

“Reserve Fee” means the non-refundable fee of four percent (4%) of each Loan, or such other amount, if any, as the Authority shall determine in connection with each Series of Bonds used to finance Education Loans, paid by the Borrower to the Authority out of the proceeds of each such Loan at the time of disbursement thereof.

“Resolution” means the Revenue Bond Resolution of the Authority adopted June 12, 1990, as supplemented and amended June 29, 1990, March 10, 1992, March 16, 1993, June 7, 1994, as supplemented, amended and restated July 19, 1996, as further supplemented and amended June 9, 1998, September 14, 1999, November 2, 2000, and October 31, 2001, and as further supplemented and amended.

“Servicer” means the entity with whom the Authority contracts (which may be the Trustee) for the purpose or providing services with respect to the origination, servicing and administration of Education Loans, Education Loan Mortgages or any other service offered by the Authority under the Program.

“Trustee” means the trustee under the Resolution.

“Truth-in-Lending Disclosure Statement” means the Truth-in-Lending Disclosure Statement sent to each Borrower in connection with the Loan.

“Tuition Prepayment Loan” means a Loan made for payment or reimbursement of a payment made pursuant to a Tuition Prepayment Plan.

“Tuition Prepayment Plan” means any plan adopted by an Eligible College or University whereby an Eligible Student’s Prepayable Costs, or any portion thereof, as determined by the Eligible College or University, may be prepaid.

## C. OVERVIEW OF FAMILY EDUCATION LOAN PROGRAM

### 1. Amount.

- (a) Current Year Loan. A Loan may be made in a principal amount of not less than \$2,000 and not more than any one Eligible Student’s Net Cost of Education in any one Loan Year. In no Loan Year shall the total of all

forms of financial assistance (including Loans under the Program) exceed the Cost of Education.

- (b) Tuition Prepayment Loan. A Loan may be made in a principal amount of not less than \$2,000 and not more than \$125,000 in any one Loan Year, for the purpose of prepaying any one Eligible Student's Prepayable Costs pursuant to a Tuition Prepayment Plan.
- (c) Maximum Borrowing. In no case may any Borrower or Co-Borrower borrow proceeds over the life of the Program for any one Eligible Student in excess of \$125,000.

2. Frequency of Loans. There is no limit on the number of separate Loans a Borrower may apply for and accept during a Loan year.

3. Interest Rate. Loans shall bear interest at the rate or rates as the Authority shall determine in connection with each Series of Bonds used to finance Education Loans. Interest due is calculated daily based on the actual number of days, elapsed, or as otherwise determined by the Authority.

4. Repayment Term and Schedule.

(a) For Education Loans other than Capitalized Interest Loans, the initial monthly payment of interest only will be due thirty (30) to sixty (60) days from the date of the disbursement. Interest-only payments shall be paid while the student is enrolled in school and for a six-month period after the student is no longer enrolled, for a maximum period of five (5) years. Thereafter, level payments of principal and interest on the Loans shall be paid monthly until maturity, which shall be 140 months after the date of the first principal payment. All Loans must be repaid in full on or prior to their maturity date. Loans may be prepaid in full, but not in part, subject to a four percent (4%) prepayment fee, waivable at the Authority's option. The Executive Director and the Deputy Director, or either of them are authorized to waive any such prepayment fee on behalf of the Authority.

(b) For Capitalized Interest Loans interest will accrue and be added to the principal Loan balance annually beginning on a date which is not more than one year following the date of disbursement and continuing annually thereafter during the Capitalized Interest Period and ending on the last day of the Capitalized Interest Period, so that an increased principal Loan balance shall be computed annually upon which interest shall accrue. Level payments of principal and interest shall commence upon the expiration of the Capitalized Interest Period and shall be paid monthly until maturity, which shall be 140 months after the date of the first principal payment. All Loans must be repaid in full on or prior to their maturity date. Loans may be prepaid in full, but not in part, subject to a four percent (4%) prepayment fee, waivable at the Authority's option. The Executive Director and the Deputy Director, or either of them are authorized to waive any such prepayment fee on behalf of the Authority.

5. Promissory Note. Each Loan will be evidenced by a Promissory Note executed by the Borrower and Co-Borrower(s), if any. A Promissory Note will be sent to the Borrower and any Co-Borrower for execution upon approval of the Application by the Servicer, as authorized by the Authority.
6. Mortgages. In the event the Authority and the Servicer enter into an agreement for the purpose of servicing Loans secured by Mortgages, Borrowers and Co-Borrowers may, to the extent permitted thereby and in accordance with the procedures and subject to the limitations set forth therein, deliver such documents as are specified therein for the purpose of securing an Education Loan.
7. Credit Life Insurance. In the event the Authority and the Servicer enter into an agreement for the purpose of offering Borrowers an option to purchase credit life insurance, Borrowers may include with their Loan payments the cost thereof, in accordance with the terms of such agreement; provided, however, that Loan payments shall first be credited to principal, interest and prepayment fees as set forth herein and in the Promissory Note.
8. Reserve Fee. The non-refundable Reserve Fee will be paid by the Borrower from the proceeds of each Loan at the time of disbursement thereof.
9. Nondiscrimination. The Authority shall not discriminate on the basis of the location within the United States and its possessions of the Eligible College or University or on the basis of the residency of Eligible Students attending Eligible Colleges or Universities located in Connecticut.
10. Borrowers not to Acquire Bonds. Each Borrower shall agree that neither the Borrower, the Co-Borrower, nor any person who is a "related person" within the meaning of Section 147(a) of the Internal Revenue Code of 1986, as amended, has or will acquire any of the Bonds in an amount related to any Loan received by such Borrower.

#### D. APPLICATION PROCESS

1. Obtaining the Application. The Authority shall make Applications available at its office, via telephone and written request, and in such other manner as the Authority may determine.
2. Submitting the Application. An Applicant seeking a Loan must submit a completed Application, to the address stated on the Application. A School Certification Form in the form or medium prescribed by the Authority from time to time must be forwarded to the Eligible College or University's financial aid office. An Application is complete when the Applicant furnishes all required documentation and information on the Application and when a School Certification Form has been completed and returned to the Servicer.
3. School Certification Form and Calculation of Net Cost of Education. The financial aid administrator completes the School Certification Form. The School

Certification Form includes (a) a representation that the institution in which the Eligible Student is enrolled is an Eligible College or University, (b) a confirmation that the student is enrolled at such institution on at least a half-time basis and is making satisfactory progress, (c) a determination and certification of the expected Cost of Education and the Net Cost of Education and (d) with respect to Capitalized Interest Loans, a determination and certification that the Eligible Student meets the requirements of an Eligible Graduate Student. The following shall be used by each Eligible College or University in estimating the expected Cost of Education:

a. Direct Costs:

(i) Tuition & Fees: The amount paid or expected to be paid directly to the Eligible College or University for such charges for the period covered by the Loan.

(ii) Room & Board: If a student resides at the Eligible College or University, the amount to be paid to the Eligible College or University for such charges for the period covered by the Loan.

(iii) Books & Supplies: An allowance as determined by the Eligible College or University.

b. Indirect Costs:

(i) Room & Board: If a student does not reside at the Eligible College or University, an allowance as determined by the Eligible College or University, for each month of expected attendance during the Loan Year, which shall not exceed the amount of such costs as determined by the United States Department of Education, provided that the Executive Director and the Deputy Director, or either of them, shall be authorized to determine such other amount as they shall deem appropriate.

(ii) Miscellaneous Personal Expenses: An allowance as determined by the Eligible College or University, for each month of expected attendance.

The financial aid office, after completing the School Certification Form, shall return it as the Authority shall direct.

E. LOAN ORIGINATION

1. Application Processing by the Servicer. Upon receipt of a completed Application, including the School Certification Form, the Servicer shall:

a. Check for completeness of the Application, including the School Certification Form, including all necessary attachments. Applications for



Capitalized Interest Loans shall be accepted only upon the Servicer's determination that the Borrower is an Eligible Graduate Student. If an Application is incomplete or otherwise rejected, the Servicer may return the document, or send a form for correction or completion of information contained in the document, to the Applicant or Co-Applicant, as appropriate, for missing information;

- b. Verify the Applicant's and a Co-Applicant's income(s);
  - c. Verify the employment status of the Applicant and a Co-Applicant in such manner as the Authority may prescribe;
  - d. Request and review the Credit Report(s) of the Applicant and/or Co-Applicant and investigate any derogatory information contained therein to the extent deemed necessary;
  - e. Review Form 1040, as agreed by the Authority and the Servicer;
  - f. Review and verify that Applicant and/or Co-Applicant have acceptable credit history with current and former creditors;
  - g. Review the credit reports according to the following guidelines: judgments, liens, bankruptcies by or against the Applicant or Co-Applicant, if any, and defaults by the Applicant or a Co-Applicant on installment loans of any type, including other education loans, to the extent deemed necessary in order to make the recommendation required;
  - h. Review to determine that the Applicant, a Co-Applicant, and the Loan, if made, would meet the requirements of the Program; for example, with respect to the amount of the Loan to be made in one Loan Year and the aggregate amount the Borrower may borrow for any one Eligible Student over the life of the Program.
  - i. Review to determine that the Applicant and each Co-Applicant is of a legal age to commit to a contract.
2. Debt-to-Income Determination by Servicer. The Servicer shall calculate a debt-to-income ratio based on information provided on the Application. Total monthly debt obligations plus the total monthly housing expense (rent or mortgage payments) may not exceed 40% of the stable gross monthly income. For purposes of calculating a debt-to-income ratio of applicants for Capitalized Interest Loans, the Servicer shall calculate the Capitalized Interest Loan principal amount as of the end of the Capitalized Interest Period. If debt-to-income ratio is satisfactory, the Servicer will complete the credit analysis. If debt-to-income ratio exceeds 40%, Servicer will reject Application or follow the procedures under Section F.1. or F.2.

3. Credit Analysis by the Servicer. The Servicer shall perform a credit analysis in keeping with normal industry standards and shall consider such factors as it shall mutually agree upon with the Authority.
4. Credit History. The Servicer shall obtain a written credit report prepared by a commercial credit reporting agency with respect to each Application.
  - a. To be eligible, no Applicant or Co-Applicant may be currently in default on any Stafford Loan, Parent Loan for Undergraduate Students (PLUS), Perkins Loan, formerly known as National Direct Student Loan (NDSL), Supplemental Loan for Students (SLS), or any other education loan, or owe refunds on a Pell Grant or Supplemental Education Opportunities Grant (SEOG).
  - b. The Servicer shall review the credit report to determine:
    - (i) That no more than one account is rated sixty (60) or more days delinquent at the time of the credit report.
    - (ii) That no more than two accounts have been sixty (60) or more days delinquent during the preceding two (2) years.
    - (iii) That no account has been delinquent ninety (90) or more days during the preceding two (2) years.
    - (iv) That there is no record of a collection or charged-off account during the preceding two (2) years.
    - (v) That there is no record of a foreclosure, repossession, open judgment or suit, unpaid prior educational loan default or other negative public record items in the past six (6) years.
    - (vi) That there is no record of a bankruptcy in the past seven (7) years.

Credit reports that list any of the above conditions may result in a rejection of the Applicant's application.

If any of the above items adversely affect credit-worthiness or differ substantially from the information on the Application, the Servicer may, with the consent of the Authority, consult with the Applicant and Co-Applicant and obtain written explanations of any problems satisfactory to the Servicer and the Authority before considering the Loan further.

#### F. LOAN APPROVAL/DISAPPROVAL

1. Limited Review of Applications Which Exceed Debt-to-Income Ratio. On a limited basis, the Servicer may review with the Authority Applications which exceed the debt-to-income ratio or otherwise do not meet the credit criteria, and

decide in consultation with the Authority whether such Applications can be shown to support the credit-worthiness of the Applicant. However, the principal amount of Loans approved pursuant to this Section may not exceed the maximum amount of such Loans permitted, as determined by the Authority in connection with each Series of Bonds. The Executive Director and the Deputy Director, or either of them, are authorized to approve the making of any such Loan.

2. Approval of Loans in Lesser Amount. If the Servicer determines that the Applicant is eligible for a Loan in an amount less than that applied for, the Servicer shall recommend a lesser Loan amount which would enable the Applicant to qualify.
3. Notice of Adverse Determination. If the Servicer determines that the Applicant's income is insufficient, utilizing the debt-to-income ratio of forty percent (40%), or if credit history does not meet the Authority's standards, or the Application is rejected for any other reason the Servicer shall send a notice to the Applicant at the address of the Borrower advising the reasons for rejection, to the extent required by law.
4. Time Period for Approval/Disapproval. The Servicer shall approve or disapprove a Loan upon receipt of a completed Loan Application, and the Servicer shall thereafter process all additional Loan documentation, the School Certification Form and Promissory Note. The time period within which such actions shall occur shall be as agreed upon by the Authority and the Servicer. If the Servicer cannot so act within such time frame, it shall give the Authority, the Applicant, and the Eligible College or University written notice that it will not be able to complete the required processing procedures within the said period, in which case it shall complete the requested processing within twenty (20) Business Days of the receipt of a completed Loan Application, and within ten (10) Business Days of receipt of additional Loan documents, School Certification Forms, and Promissory Notes.
5. Loan Disbursement Process. For each approved Loan,
  - (a) The Servicer shall:
    1. Originate and mail to the approved Applicant, at the Borrower's address, a Promissory Note and, if applicable, an Education Loan Mortgage, to be signed by the Borrower and each Co-Borrower, and returned to the Servicer.
    2. Upon receipt of an executed Note and School Certification Form, and, if applicable, an Education Loan Mortgage, notify the Authority in report form of Loan approvals and deliver to the Trustee via a secure means (such as overnight courier) the original Note and any Education Loan Mortgage. The Servicer shall keep the Application and shall keep a copy of such Note and any Education Loan Mortgage for safekeeping. The

Servicer shall also determine a disbursement date for each approved Loan upon receipt of the executed Note and School Certification Form, and shall list such Loan on the disbursement roster, which shall be forwarded to the Authority and the Trustee.

- (b) The Trustee shall, upon receipt of a signed Promissory Note and, if applicable, Education Loan Mortgage, and disbursement roster from the Servicer, and a signed requisition from the Authority, (a) pay from the Loan Account, via such means as the Servicer shall direct, to the Servicer the amount of the Loan less the applicable Reserve Fee and (b) advise the Authority of the disbursement. The Reserve Fee shall be retained in the Loan Account held by the Trustee.
  - (c) The Servicer shall disburse by check or by Electronic Fund Transfer, to the Institution, the Borrower or the Borrower's designee as specified in the Promissory Note, the Loan proceeds upon receipt of funds from the Trustee.
  - (d) The Servicer shall notify major credit bureaus of the making and status of each Borrower's obligation to the Authority.
6. Receipt of Check. If a Loan is disbursed by check, the Borrower and each Co-Borrower must endorse the check. In the case of a Tuition Prepayment Loan, the check must be endorsed by the Borrower, each Co-Borrower, and the Eligible College or University. If the Loan is disbursed by Electronic Fund Transfer, the Borrower, each Co-Borrower and the Eligible College or University receiving such disbursement shall execute such documents as the Authority shall require.

#### G. LOAN SERVICING AND REPAYMENT

Loans will be serviced by the Servicer in accordance with the following:

- 1. Transmittal of Information. Eligible Colleges and Universities will forward to the Servicer any changes of name, address, telephone number, date of birth, and social security number of Borrower(s) of which they are aware.
- 2. Monthly Statements. The Servicer will, with respect to Loans other than Capitalized Interest Loans, within a period of sixty (60) days after the disbursement of funds, commence, and continue throughout the Interest Only Payment Period and the Principal and Interest Repayment Period, to send monthly statements to the Borrower. The Servicer will, with respect to Capitalized Interest Loans, within a period of sixty (60) days after the expiration of the Capitalized Interest Period, commence, and continue throughout the Principal and Interest Repayment Period, to send monthly statements to the Borrower. In the event the Servicer and the Authority have entered an agreement for the purpose of offering Borrowers the option of purchasing credit life insurance, such statements may also include such information as the Authority deems appropriate with respect to the credit life insurance in accordance with the terms of such agreement. All

payments must be made by check or money order payable to the order of the Servicer and mailed to the post office box maintained by the Servicer or as otherwise agreed by the Servicer and the Authority.

3. Processing of Payments Received. The Servicer, on behalf of Authority, will maintain a post office box to receive payments on the Loans, and will transfer such payments into an account maintained by the Trustee, on such basis as the Servicer and the Authority shall agree. Such payments shall be deemed held in trust for the Authority and the bondholders. The Authority and the Trustee shall be responsible for negotiating the terms of said account with respect to fees, interest, and transfers therefrom. The Servicer shall prepare a report monthly with respect to payments received, identifying (to the extent ascertainable) the Borrower with respect to each payment and shall deliver such report to the Authority.
4. Application of Loan Payments. Payments of Loans will be applied, to the extent sufficient, in the following order of priority: (a) interest and (b) principal. In the event that a Borrower shall have more than one Loan outstanding, partial payments shall be applied to each such Loan based upon the percentage each such Loan bears to the total Loans of such Borrower outstanding, or as otherwise agreed by the Authority and the Servicer.
5. Loan Repayments. For Loans other than Capitalized Interest Loans, interest-only payments will be due commencing no later than sixty (60) days after disbursement of funds and shall continue during the Interest Only Payment Period. Thereafter level monthly payments of principal and interest shall be due for a period of 140 months, or until the Loan is prepaid, if earlier. For Capitalized Interest Loans, level monthly payments of principal and interest shall be due commencing on the expiration of the Capitalized Interest Period and ending after 140 months or until the Loan is prepaid, if earlier.
6. Prepayments. A Loan may only be prepaid in full. The Authority will assess a fee of four percent (4%) of the balance due for such prepayments which fee may be reduced or waived by the Authority. If a Borrower wishes to prepay a Loan in full, the Borrower must contact the Servicer to determine the amount of principal and interest outstanding. If payment of more than one month is made, which payment is less than full payment including any prepayment fee, the additional moneys will be credited first towards interest and second towards principal by the Servicer or, at the option of the Authority, will be returned to the Borrower. Excess payments may be applied to the prepayment fee. The Servicer will promptly notify the Authority upon receipt of any payments received which are in excess of the principal and interest due. Collection of the prepayment fee is the responsibility of the Authority.
7. Payments in Full. Based on information received and its records, the Servicer will notify the Authority of payment in full of a Loan before or at maturity. Upon receipt of payment in full of each account, notification will be given to the

Authority in writing that payment in full has been received. For purposes of servicing only, an account will be deemed paid in full if its balance is less than \$5.00.

## H. LOAN COLLECTION PROCESS

1. Servicing of Delinquent Loans. The Servicer must responsibly service Delinquent Loans so as to enable, to the maximum extent possible, payment in full of such Loans on their respective repayment schedules. For accounts which continue to be delinquent, the Servicer must notify the Borrower and any Co-Borrower of the delinquency. If any payment is one hundred twenty (120) days past due, the Servicer will notify the Authority.
2. Delinquency Requirements. The Servicer will send delinquency notices and make contact with the Borrower and any Co-Borrowers in accordance with the Servicing Agreement or such other process agreed to by the Authority.
3. Defaults. The Authority, upon the 120th day of delinquency, will consider the Loan to be in default. The Authority will begin collection proceedings against the Borrower and any Co-Borrower upon receipt of the Note from the Trustee and related documents from the Servicer.
4. Death of Borrower or Co-Borrower. If, at any time, the Servicer is notified or otherwise becomes aware of the death of a Borrower or a Co-Borrower, it shall notify the Authority immediately.
5. Bankruptcy. If a Borrower or a Co-Borrower is adjudicated bankrupt and has liability for a Loan discharged, the other obligor(s) remains liable for unpaid principal and interest. The Authority and its counsel shall consult with respect to the filing of a claim in any bankruptcy proceeding of a Borrower or Co-Borrower.
6. Due Diligence. The Servicer shall exercise reasonable care and due diligence in the collection of Loans made by the Authority and shall utilize collection practices no less extensive and rigorous than those generally in use by commercial lenders for loans of comparable amounts. The Servicer shall use such collection practices as are set forth in the Servicing Agreement between the Authority and the Servicer.
7. Mortgages. The Servicer's additional responsibilities with respect to Education Loans secured by Education Loan Mortgages shall be set forth in the separate agreement, if any, entered into between the Servicer and the Authority for the servicing of Education Loans secured by Education Loan Mortgages.
8. Credit Life Insurance. The Servicer's additional responsibilities with respect to credit life insurance shall be set forth in the separate agreement, if any, entered into between the Servicer and the Authority for the purpose of offering Borrowers the option to purchase credit life insurance.

ADDENDUM TO  
CONNECTICUT HIGHER EDUCATION  
SUPPLEMENTAL LOAN AUTHORITY  
FAMILY EDUCATION LOAN PROGRAM  
PROGRAM MANUAL

Dated August 19, 1998

Per the determination of the 1998 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$15,000,000 Revenue Bonds (Family Education Loan Program) 1998 Series A and the Authority's \$3,560,000 Revenue Refunding Bonds (Family Education Loan Program ) 1998 Series B shall bear interest at a stated rate of 7.50% per annum, except any loan made with the Carry Over amount.
2. 1998 Loans will be serviced by The Connecticut Student Loan Foundation.

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CONNECTICUT HIGHER EDUCATION  
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Dated October 27, 1999

Per the determination of the 1999 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$12,500,000 Revenue Bonds (Family Education Loan Program) 1999 Series A and the Authority's \$4,390,000 Revenue Refunding Bonds (Family Education Loan Program ) 1999 Series B shall bear interest at a stated rate of 7.50% per annum, except any loan made with the Carry Over amount.

2. Prior to December 10, 1999, the Reserve Fee shall be four percent (4%) for Loans made with proceeds of the Authority's \$12,500,000 Revenue Bonds (Family Education Loan Program) 1999 Series A and the Authority's \$4,390,000 Revenue Refunding Bonds (Family Education Loan Program) 1999 Series B. On and after December 10, 1999, the Reserve Fee for 1999 Loans shall be three percent (3%).

3. 1999 Loans will be serviced by the Connecticut Student Loan Foundation.



ADDENDUM TO  
CONNECTICUT HIGHER EDUCATION  
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Dated November 2, 2000

Per the determination of the 2000 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$16,410,000 Revenue Bonds (Family Education Loan Program) 2000 Series A and the Authority's \$5,975,000 Revenue Refunding Bonds (Family Education Loan Program ) 2000 Series B (collectively the "2000 Bonds") initially shall bear interest at a stated rate of 7.25% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2000 Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2000 Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.
2. Initially, the Reserve Fee shall be two percent (2%) for Loans made with proceeds of the 2000 Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2000 Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2000 Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.
3. 2000 Loans will be serviced by the Connecticut Student Loan Foundation.

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Dated October 31, 2001 & November 2, 2001

Per the determination of the 2001 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$25,000,000 Revenue Bonds (Family Education Loan Program) 2001 Series A (the "2001 Series A Bonds") initially shall bear interest at a stated rate of 6.70% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2001 Series A Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2001 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.

2. Initially, the Reserve Fee shall be two percent (2%) for Loans made with proceeds of the 2001 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received written confirmation from the rating agencies then rating the 2001 Series A Bonds that such increase or decrease, in and of itself, will not cause the rating on the 2001 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such changes.

3. 2001 Loans will be serviced by the Connecticut Student Loan Foundation.

ADDENDUM TO  
CONNECTICUT HIGHER EDUCATION  
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Dated June 30, 2003

Per the determination of the 2003 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$18,000,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2003 Series A (the "2003 Series A Bonds") and the Authority's \$12,915,000 Senior Revenue Refunding Bonds (Connecticut Family Education Loan Program) 2003 Series B Bonds (the "2003 Series B Bonds," and, with the 2003 Series A Bonds, the "2003 Series Bonds") initially shall bear interest at a stated rate of 4.990% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2003 Series Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.

3. 2003 Loans will be serviced by the Connecticut Student Loan Foundation.

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Dated March 2, 2005

Per the determination of the 2005 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$31,455,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2005 Series A (the "2003 Series A Bonds") and the Authority's \$5,900,000 Senior Revenue Refunding Bonds (Connecticut Family Education Loan Program) 2005 Series B Bonds (the "2005 Series B Bonds," and, with the 2005 Series A Bonds, the "2005 Series Bonds") initially shall bear interest at a stated rate of 5.50% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.
2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2005 Series Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.
3. 2005 Loans will be serviced by Firstmark Services LLC.

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Dated August 2, 2006

Per the determination of the 2006 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority:

1. Loans made with proceeds of the Authority's \$33,270,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2006 Series A (the "2006 Series A Bonds") initially shall bear interest at a stated rate of 6.15% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2006 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.

3. 2006 Loans will be serviced by Firstmark Services LLC.

ADDENDUM TO  
CONNECTICUT HIGHER EDUCATION  
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Dated August 10, 2007

Per the determination of the Executive Director, as provided in the Determination of the 2007 Bond Committee of the Connecticut Higher Education Supplemental Loan Authority on August 9, 2007:

1. Loans made with proceeds of the Authority's \$41,000,000 Senior Revenue Bonds (Connecticut Family Education Loan Program) 2007 Series A (the "2007 Series A Bonds") initially shall bear interest at a stated rate of 6.99% per annum, except any loan made with the Carry Over amount. The interest rate borne by such Education Loans may be increased or decreased by resolution of the Authority, provided the Authority has received a Credit Confirmation approving such change.
2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2007 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority, provided the Authority has received Credit Confirmation approving such change.
3. 2007 Loans will be serviced by Firstmark Services LLC.

The stated rates of interest borne by Loans originated pursuant to the Family Education Loan Program with proceeds of the Authority's Bonds (except for Carry-Over amounts) is as set forth below:

**Stated Rate of Interest on Outstanding Loans**

Revenue Bonds	Stated Rate of Interest (per annum)
1990 Series A	9.70 %
1991 Series A	9.20 %
1993 Series A	8.40 %
1994 Series A	8.25 %
1996 Series A	8.10 %
1998 Series A	7.50 %
1998 Series B	7.50 %
1999 Series A	7.50 %
1999 Series B	7.50 %
2000 Series A	7.25 %
2000 Series B	7.25 %
2001 Series A	6.70%
2003 Series A	4.99%
2003 Series B	4.99%
2005 Series A	5.50%
2005 Series B	5.50%
2006 Series A	6.15%
2007 Series A	6.99%