

Connecticut Higher Education Supplemental Loan Authority (CHESLA)

2005 Annual Report



**Connecticut Family Education Loan Program
CT FELP**

www.chesla.org

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



Connecticut Higher Education Supplemental Loan Authority

CHESLA

342 North Main Street, Suite 202
West Hartford, Connecticut 06117

Phone: (860) 236-1400 In-State: (800) 252-FELP
FAX (860) 236-0910
www.chesla.org

Email: Gloria F. Ragosta - ragostag@theccic.org
Samuel E. Rush - chesla1@chesla.org
Susan W. Harlan - chesla2@chesla.org



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

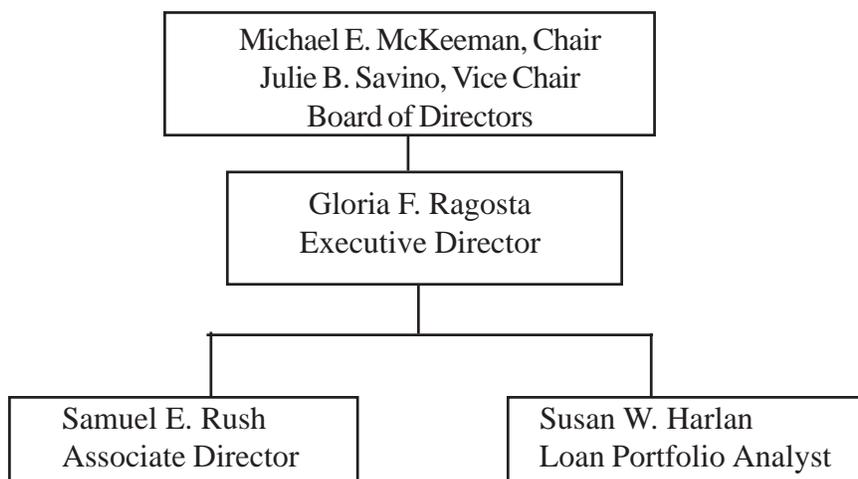
The State Treasurer Denise Nappier, Secretary of the Office of Policy and Management (OPM) Robert L. Genuario and Commissioner of Higher Education Valerie Lewis serve as ex-officio members of the Authority. The remaining five members are appointed by the Governor based on their qualifications in the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

During the year ended June 30, 2005, the following individuals served as Authority members:

<u>Name</u>	<u>Expiration of Term</u>	<u>Statutory Qualifications</u>
William J. Pizzuto	2006	Employee of constituent unit of state higher education system
Julie B. Savino	2005	Experience in higher education loan finance
Frank R.A. Resnick	2005	Former employee of institution for higher education
Delores P. Graham	2009	Retired employee/trustee of institution for higher education
Michael E. McKeeman	2008	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, 2004 and June 30, 2005, the Authority held four regular meetings and one special meeting.

At its meeting on September 21, 2004:

- The Authority approved a motion to authorize the Executive Director to expend up to \$10,000 from reserve funds for additional legal fees for Day, Berry & Howard which funds are attributed to a private letter ruling for the 2% loan yield blended rate calculation.
- The Authority swore in Ms. Graham as a new member of the Board of Directors.
- The Executive Director reported on the Governor's Task Force to Review State Contracting Procedures and indicated that the report included quasi-state agencies.
- The Authority authorized the Executive Director to extend the collection services contract with CCA until an RFP process is concluded and a new contract is executed.
- The Authority approved the issuance of an RFP for Collection Services and to appoint a Collection Agency Selection Committee.
- The Authority approved a motion to re-appoint Mr. Resnick to serve as Vice Chair of the Authority.
- The Authority approved the payment of a legal retainer and any necessary additional fees from the Pre-1996 revenue fund to cover costs for an estate claim on a co-borrower's estate.

September 21, 2004 (continued)

- The Authority approved an expenditure of \$5,000 from the operating fund to upgrade the CHESLA web site.
- The Authority approved its Annual Report for FY 2004.

At its special meeting on September 30, 2004:

- The Authority approved the CHESLA audit for FY 2004 with changes agreed to by the auditing firm including: a date change from June 20, 2004 to June 30, 2004 and allowing legal counsel and the auditors to make any necessary arbitration clarifications regarding arbitration to the audit.

The Executive Director was directed to forward a copy of the corrected audit to the Authority's Trustee in accordance with the Bond Resolution.

- The Authority approved its Management and Discussion Analysis with minor changes.
- The Authority approved a one-year extension of the PFM Financial Advisor contract with language clarifying that the original contract was with Evenson Dodge and that the company's name changed to Public Financial Management, however, the individuals who handled the account remained the same.

At its meeting on December 14, 2004:

- The Authority held its annual meeting with its Advisory Committee.
- The Authority approved a motion to appoint the 2005 Advisory Committee members.
- The Authority approved its meeting dates for 2005.
- The Authority approved a resolution to ratify \$50,000 for the private letter ruling (for a single yield calculation regarding the 2% yield issue) to be taken from the agency account operating reserves and added to the FY 2005 operating budget.
- The Authority approved a resolution ratifying the Collection Company Selection Committee's recommendation to reappoint the Collection Company of America to serve as the Authority's collection agency for a period of three years.
- The Authority approved the nomination of Ms. Savino to serve as Vice Chair of the Authority.
- The Authority reviewed the FY 2005 first quarter financial statements.

At its meeting on March 8, 2005:

- The Authority approved a motion authorizing the Bond Committee to determine which funds should be used for recycling at the 4.99% fixed rate. The 2005 loans were fixed at 5.5% and the bond deal was scheduled to close on March 15, 2005.
- The Executive Director reported that the state auditors were conducting an internal compliance audit for the Authority's 2003 and 2004 fiscal years.
- The Authority reviewed the FY 2005 second quarter financial statements.
- The Authority approved a resolution appointing an Auditor Selection Committee and to issue an RFP for auditing services.
- The Authority approved a resolution appointing a Bond and General Counsel Selection Committee and to issue an RFP for Bond/General Counsel.

March 8, 2005 (continued)

- The Executive Director advised the Board of Governor Rell's initiative to develop compensation and benefit standards for quasi-state agencies. Mr. McKeeman was appointed to the Governor's Compensation Committee representing CHESLA.

At its meeting on June 2005:

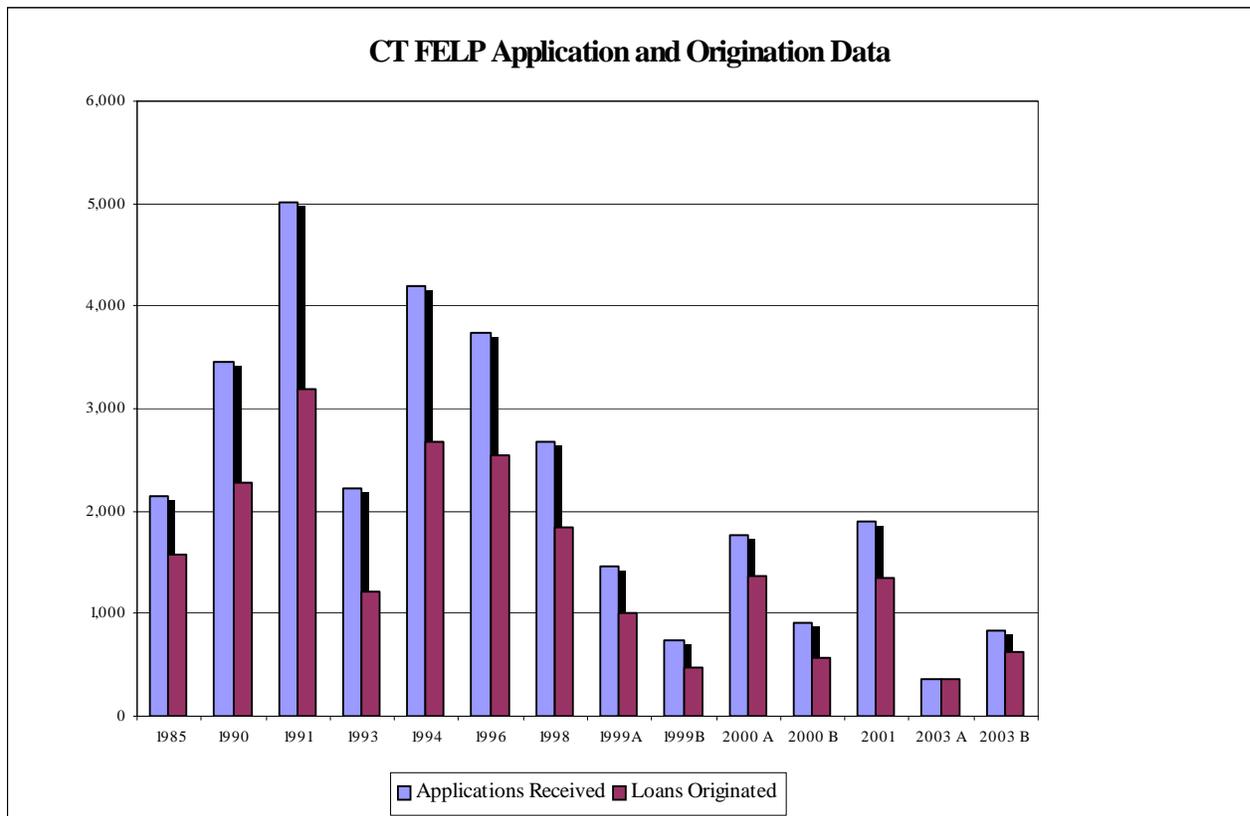
- The Authority reviewed the FY 2005 third quarter financial statements.
- The Authority approved a resolution confirming the Auditor Selection Committee recommendation to contract with Simione Macca & Larrow, LLP for the FY 2005, 2006 and 2007 CHESLA audits.
- The Authority approved the Legal/Bond Counsel Selection Committee Recommendation to contract with Day, Berry and Howard for a two-year period with a one-year renewable.
- The Authority approved the CHESLA Budget and Plan of Operations for FY 2006.
- The Authority approved a resolution to form an Ad Hoc Committee to study the roles of legal and bond counsel and to determine if the Authority should have separate firms or one firm to serve as legal/bond counsel.
- The Authority approved a resolution concerning recycling 4.99% fixed rate funds.
- The Authority authorized the Personnel Committee to develop board policies concerning compensation and changed the committee's name to the Compensation Committee.
- The Authority approved a resolution honoring Frank R.A. Resnick for his many years of service on CHESLA's Advisory Committee and Board of Directors.

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, 2005, the following individuals served as members of the Advisory Committee: James Blake, Edwin Below, Virginia Gorman, Joseph Martinkovic, Kristin White, Julie Weber, Richard Savage, Marylou Shand, John Siegrist, Bob Beiersdorf, Dominic Yoia, and David Welsh. The Advisory Committee met with the Authority on December 14, 2004 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, 2005. (The audit is attached as Exhibit A.)

Financial Assistance Activities

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

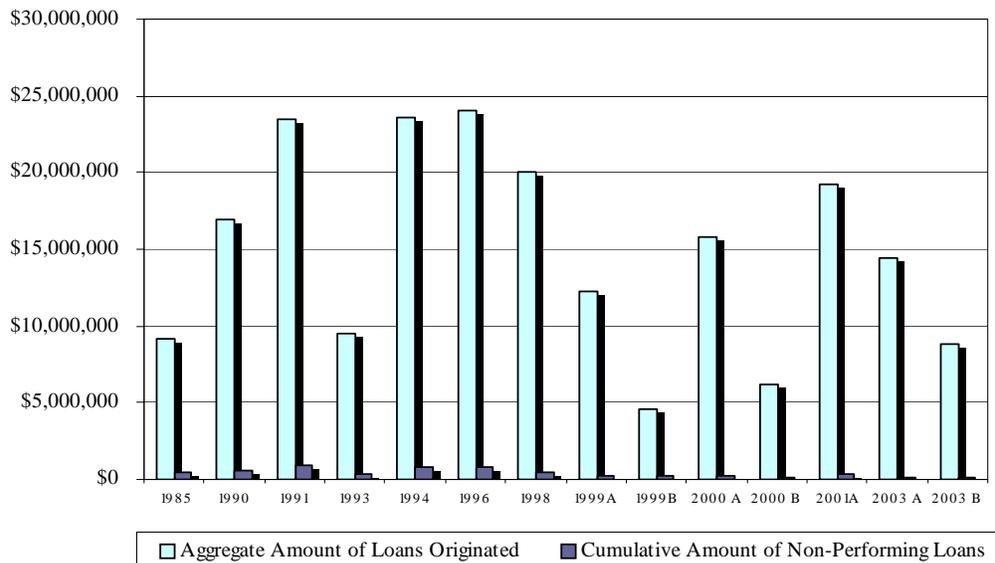


All series are fixed (simple interest) rates

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) and 2003B (964).

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 (1,124) and 2003B (743).

CT FELP Origination Amount and Non-Performing Loan Data



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 (\$19,282,755), 2003A (\$14,449,271) and 2003B (\$8,813,427) .

Cummulative Total of Non-Performing Loans - 1985 (\$447,567), 1990 (\$558,579), 1991 (\$902,367), 1993 (\$377,585), 1994 (\$753,616), 1996 (\$761,016), 1998 (\$620,972), 1999A (\$366,571), 1999B (\$298,851), 2000A (\$372,873), 2000B (\$130,514), 2001A (\$286,587), 2003A(\$124,112) and 2003B (\$63,907) Total non-performing loans \$6,065,117.

Non-Performing loan Rate - 1985 (4.90%), 1990 (3.29%), 1991 (3.84%), 1993 (3.99%), 1994 (3.19%), 1996 (3.17%), 1998 (3.11%), 1999A (2.98%), 1999B (6.46%), 2000A (2.35%), 2000B (2.11%), 2001 (1.49%), 2003A (.86%) and 2003B (.73%). Total non-performing loan rate (2.91%)

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 June 29, 2005

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 2001 bond sales is attached as Exhibit B.

A copy of the 2005 CT FELP Program Manual is attached as Exhibit C.

Bond Issuance

The Authority issued \$31.455 million in 2005 Series A Bonds and \$5.9 million in 2005 Series B Bonds which refunded \$5.9 million in bonds of the 1993 and 1994 Series. The 2005 Bonds were sold through a negotiated underwriting with RBC Dain Rauscher as the underwriter and PFM as the Authority's financial advisor, during the fiscal year ended June 30, 2005.

As of June 30, 2005, the Authority had issued Revenue Bonds and Revenue Refunding Bonds in the aggregate principal amount of \$300.58 million. The principal amounts of the Authority's outstanding bonds totalled \$130.645 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 - \$ 455,000	\$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	\$ 9,820,000
1998 Series A - \$15,000,000	\$ 5,615,000
1998 Series B - \$ 3,560,000	\$ 2,935,000
1999 Series A - \$12,500,000	\$ 5,440,000
1999 Series B - \$ 4,390,000	\$ 3,995,000
2000 Series A - \$16,410,000	\$10,000,000
2000 Series B - \$ 5,975,000	\$ 3,845,000
2001 Series A - \$25,000,000	\$22,575,000
2003 Series A - \$18,000,000	\$17,000,000
2003 Series B - \$12,915,000	\$12,065,000
2005 Series A - \$31,455,000	\$31,455,000
2005 Series B - \$ 5,900,000	\$ 5,900,000
Total \$300,580,000	\$130,645,000

The State's contingent liability, in connection with the 1996, 1998, 1999, 2000, 2001, 2003 and 2005 A 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, 2005 in the aggregate amount of \$9.050 million.

Projected Activities

The Authority expects to provide assistance in the form of Education Loans from the remaining proceeds of its 2005 Series Bonds in the amounts of approximately \$27 million during the Fiscal Year ending June 30, 2006, under the CT FELP Program.

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 the Authority to provide equal employment opportunity at all times without regard to race, color, religion, sex, citizenship status, age, national origin, non-job related disability, veteran status, or any other discrimination prohibited by state or federal law. Notwithstanding the foregoing, it shall be the affirmative action plan of the Authority to take positive action, with conviction and effort, to overcome the present effects of past practices, policies or barriers to equal employment opportunity and to achieve the full and fair participation of women, African-Americans, and Hispanics and any other protected group found to be under-utilized in the workforce or affected by policies or practices having an adverse impact. As of June 30, 2005, the Authority had two employees, an Associate Director and a Loan Portfolio Analyst. One employee was an African-American male and one was a Caucasian female.



Community Service Activities

The Authority participated in two early college awareness programs in the State. In addition, CHESLA sponsored one GEAR UP student by awarding her an annual \$2,500 "Morrison Beach Scholarship." The total award for the student equals \$10,000 over four years of college. The student is enrolled in the University of Connecticut. Annual scholarship allocations are based on academic performance and continued enrollment (the three previous recipients have graduated).

Payments in Excess of \$5,000

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

Beers, Hammerman & Co.	-	Accountant
Carlin, Charron & Rosen LLP	-	Auditor
Collection Company of America	-	Collection Agency
Connecticut Conference of Independent Colleges	-	Personal Services/Shared Office Space
Connecticut Student Loan Foundation	-	Origination/Loan Servicing
Education Finance Council	-	Professional Membership
Firstmark Services	-	Origination/Loan Servicing (as of Jan. 1/05)
Fitch	-	Rating Agency
Full Circle	-	Web Design and Host
RBC Dain Rauscher	-	Financial Advisor
Day, Berry & Howard LLP	-	Legal/Bond Counsel
Howard Lee Schiff P.C.	-	Collection Attorney
Kutak Rock Consultants	-	Loan Yield/Arbitrage Rebate
Moody's Investors Services	-	Rating Agency
NCHELP	-	Professional Membership
R.C. Knox & Co., Inc.	-	Insurance Broker/Insurance Fees
Small Business Services	-	Health Insurance
The Hartford Press, Inc.	-	Printer
The PFM Group	-	Financial Advisor
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, 2005 and 2004

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
TABLE OF CONTENTS**

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS	
Balance Sheet	9
Statements of Revenues, Expenses, and Changes in Net Assets.....	11
Statements of Cash Flows	12
Notes to Financial Statements	14
INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY INFORMATION	23
Combining Balance Sheets.....	24
Combining Statements of Revenues, Expenses, and Changes in Net Assets.....	26
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	27

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 year ended June 30, 2005, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit. The basic financial statements of the Authority as of June 30, 2004, were audited by other auditors whose report dated September 3, 2004 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 audit provides a reasonable basis for our opinion.

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, 2005, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005 on our consideration of the Authority's internal control over financial reporting and on 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 should be considered in assessing the results of our audit.

Board of Directors

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

Page 2

The accompanying 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 9, 2005

**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, 2005 as compared to June 30, 2004. 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 2005 assets increased by \$16.5 million or 13.1% over fiscal year 2004 and liabilities increased by \$14.3 million or 11.9% over fiscal year 2004. Total assets exceeded liabilities by \$8.8 million in 2005 as compared to \$6.5 million for 2004, or a net increase of \$2.3 million.

	BALANCE SHEETS	
	(In Thousands)	
	2005	2004
ASSETS:		
Current unrestricted assets	\$ 19,309	\$ 17,500
Current restricted assets	45,493	26,952
Total current assets:	64,802	44,452
Non-current assets:		
Restricted Investments	7,000	8,500
Loans receivable, net of current portion	68,799	71,502
Bond issuance costs, net	2,445	2,058
Total non-current assets	78,244	82,060
TOTAL ASSETS	\$ 143,046	\$ 126,512
LIABILITIES:		
Current liabilities	\$ 6,899	\$ 6,089
Long-term liabilities	127,396	113,896
TOTAL LIABILITIES	134,295	119,985
NET ASSETS:		
Unrestricted	8,751	6,527
TOTAL LIABILITIES AND NET ASSETS	\$ 143,046	\$ 126,512

FINANCIAL HIGHLIGHTS

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

Assets

Current unrestricted assets increased by \$1.8 million or 10.3%. This was due primarily to the decrease of loan losses in 2005 and 2004.

Current restricted assets increased by \$18.5 million or 68.8%. This increase was primarily the result of an increase in investments of \$29.4 million due to the issuance of the 2005 bonds.

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

FINANCIAL HIGHLIGHTS (Continued)

Non-current assets decreased by \$3.8 million or 4.6%. This was primarily due to:

- Loans receivable decreased by \$2.7 million as a result of the collection of principal on outstanding education loans
- Bond issuance costs increased by \$386,622 due to issuance cost related to 2005 Series A and B Bonds, net of amortization expense.

Liabilities

Current liabilities increased by \$.8 million or 13.3% as compared to June 30, 2004, due primarily to the current payment obligations of the new 2005 Series A and B bonds.

Long-term liabilities increased by \$13.5 million or 11.8% as compared to June 30, 2004, due to the issuance of 2005 Series A and B Bonds, less scheduled principal reductions and mandatory redemptions on existing bonds payable.

SUMMARY OF OPERATIONS AND CHANGES IN NET ASSETS

A summary of operations and changes in net assets for the fiscal year ended June 30, 2005, 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,

	2005	2004
Operating revenues	\$ 10,139	\$ 9,099
Operating expenses	7,915	7,790
Increase in Net Assets	\$ 2,224	\$ 1,309

Operating revenues increased in fiscal year 2005 by \$1.04 million or 11.4% over fiscal year 2004, due primarily to the increase in interest earning assets and higher earnings on loans receivable.

Operating expenses also increased during fiscal year 2005 by \$125,000 or 1.6% compared to fiscal year 2004. This was primarily due to an increase in loan collection fees, a decrease in interest expense, and a decrease in the provision for loan losses.

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

SUMMARY OF REVENUE

A summary of revenues for the fiscal year ended June 30, 2005, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2005</u>	<u>Percent of Total</u>	<u>2004</u>	<u>Increase/ (decrease) from 2004</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest income on loans receivable	\$ 7,986	78.8%	\$ 7,178	\$ 808	11.3%
Interest income on investments	1,455	14.3%	1,236	219	17.7%
Administrative fees	698	6.9%	631	67	10.6%
Other operating income	<u>-</u>	<u>0.0%</u>	<u>54</u>	<u>(54)</u>	-100.0%
Total operating revenues	<u>10,139</u>	<u>100.0%</u>	<u>9,099</u>	<u>1,040</u>	
 TOTAL REVENUES	 <u>\$ 10,139</u>	 <u>100.0%</u>	 <u>\$ 9,099</u>	 <u>\$ 1,040</u>	 <u>11.4%</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 11.3% or \$807,391.
- Interest income on investments, increased by \$219,337 or 17.7% from fiscal year 2004. The increase is due to a higher amount of investments on hand during the year.
- Administrative fees increased by \$66,688 or 10.6%. These fees are based on Authority income from a percentage of originations and principal outstanding from the various bond deals.

**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, 2005, and the amount and percentage of change in relation to prior fiscal year amounts is as follows:

	<u>2005</u>	<u>Percent of Total</u>	<u>2004</u>	<u>Increase/ (decrease) from 2004</u>	<u>Percent Increase/ (decrease)</u>
Operating:					
Interest expense	\$ 5,593	70.7%	\$ 6,032	\$ (439)	-7.3%
Administrative fees	698	8.8%	631	67	10.6%
Loan collection fees	756	9.5%	426	330	77.5%
General and administrative expenses	327	4.1%	313	14	4.5%
Amortization of bond issuance costs	340	4.3%	362	(22)	-6.1%
Professional fees	204	2.6%	172	32	18.6%
Provision for loan losses	(300)	-3.8%	(400)	100	-25.0%
Salaries	99	1.3%	99	-	0.0%
Trustee fees	44	0.6%	43	1	2.3%
Arbitrage rebate expense	<u>154</u>	<u>1.9%</u>	<u>112</u>	<u>42</u>	<u>37.5%</u>
TOTAL OPERATING EXPENSES	<u>\$ 7,915</u>	<u>100.0%</u>	<u>\$ 7,790</u>	<u>\$ 125</u>	<u>1.6%</u>

The Authority's expenses increased from fiscal year 2004 to 2005 by \$125,000 or 1.6% in total. Notable differences between the years include:

- Interest expense decreased by \$439,461 or 7.3% due to the replacement of higher interest debt with lower interest debt.
- Administrative fees increased by \$66,688 or 10.6% primarily due to higher activity in the current year in terms of education loans disbursed.
- Arbitrage rebate expense increased by \$42,415 due to the increase in the 2% yield liability as compared to June 30, 2004.
- Professional fees increased by \$31,888 due primarily to the services of a Financial Advisor due to a new bond series issued during the year.
- Provision for loan losses decreased by \$100,000 or 25% primarily due to historical collection results, CHESLA's reduction in write offs and its increase in recoveries in recent years which support a reduction in the overall allowance for loan losses.
- Loan collection fees increased largely due to the inclusion of the costs paid for deconversion and conversion related to the change in loan service providers during 2005.

**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,		
	2005	2004
Cash flows from operating activities	\$ 2,616	\$ 6,572
Cash flows from investing activities	(27,900)	(2,312)
Cash flows from non-capital financing activities	14,161	197
Net (decrease) increase in cash and cash equivalents	(11,123)	4,457
Cash and cash equivalents:		
Beginning of year	19,546	15,089
End of year	\$ 8,423	\$ 19,546

The Authority's available cash and cash equivalents decreased \$11.1 million from \$19.5 million at the end of fiscal year 2004 to \$8.4 million at the end of fiscal year 2005 due to:

- Cash flows from operating activities, which represent the net difference between cash received for loan payments and interest and loans disbursed to borrowers and cash paid to employees and vendors for goods and services. For fiscal year 2005, this net source of cash was \$4 million less than fiscal year 2004 and was mainly due to an increase in loan disbursements.
- Cash flows from investing activities, which represent the net difference between proceeds from maturing investments versus the purchase of investment securities. For fiscal year 2005, this net use of cash was \$25.6 million more than fiscal year 2004 and was mainly due to significant purchases of investments in the current year.
- Cash flows from non-capital financing activities, which represent the net difference between total proceeds from bond issuances, versus the costs of issuance and scheduled payments on bond principal. For fiscal year 2005, this net source of cash was \$14 million higher than fiscal year 2004 and was mainly due to the proceeds from the 2005 Series A and B bond issuances exceeding scheduled payments on bond principal.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

**BALANCE SHEET
June 30, 2005 and 2004**

ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS		
Unrestricted assets:		
Cash and cash equivalents	\$ 1,545,601	\$ 1,809,257
Current portion of loans receivable, net of allowances for loan losses of \$2,300,000 in 2005 and \$2,600,000 in 2004	16,957,639	15,066,397
Interest receivable on investments	435,210	137,869
Interest receivable on loans receivable	<u>370,818</u>	<u>486,263</u>
Total unrestricted assets	<u>19,309,268</u>	<u>17,499,786</u>
Restricted assets:		
Cash and cash equivalents	6,878,006	17,737,215
Investments	38,613,093	9,212,834
Connecticut Higher Education Trust	<u>2,085</u>	<u>2,715</u>
Total restricted assets	<u>45,493,184</u>	<u>26,952,764</u>
Total Current Assets	<u>64,802,452</u>	<u>44,452,550</u>
NON-CURRENT ASSETS		
Restricted investments	7,000,000	8,500,000
Loans receivable, net of current portion	68,798,981	71,501,591
Bond issuance costs, net of accumulated amortization of \$2,786,922 in 2005 and \$2,426,520 in 2004	<u>2,444,584</u>	<u>2,057,962</u>
Total Non-Current Assets	<u>78,243,565</u>	<u>82,059,553</u>
	<u>\$ 143,046,017</u>	<u>\$ 126,512,103</u>

See notes to financial statements.

LIABILITIES	<u>2005</u>	<u>2004</u>
CURRENT LIABILITIES		
Current portion of bonds payable	\$ 5,225,280	\$ 4,846,352
Accounts payable and accrued liabilities	90,520	105,391
Current portion of arbitrage rebate payable	154,183	29,667
Accrued interest payable	1,023,187	692,549
Current portion of deferred revenue	<u>405,384</u>	<u>414,766</u>
Total Current Liabilities	<u>6,898,554</u>	<u>6,088,725</u>
LONG-TERM LIABILITIES		
Bonds payable, net of current portion	124,993,529	110,374,261
Arbitrage rebate payable, net of current portion	130,736	1,216,224
Deferred revenue, net of current portion	<u>2,272,034</u>	<u>2,305,428</u>
Total Long-Term Liabilities	<u>127,396,299</u>	<u>113,895,913</u>
Total Liabilities	<u>134,294,853</u>	<u>119,984,638</u>
UNRESTRICTED NET ASSETS	<u>8,751,164</u>	<u>6,527,465</u>
	<u>\$ 143,046,017</u>	<u>\$ 126,512,103</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2005 and 2004**

	2005	2004
OPERATING REVENUES		
Interest income on investments	\$ 1,455,380	\$ 1,236,043
Interest income on loans receivable	7,985,977	7,178,586
Administrative fees	697,588	630,900
Other operating income	-	53,550
	10,138,945	9,099,079
OPERATING EXPENSES		
Interest expense	5,592,934	6,032,395
Administrative fees	697,588	630,900
Loan collection fees	755,965	426,269
General and administrative expenses	327,124	313,162
Amortization of bond issuance costs	340,657	361,301
Professional fees	204,088	172,200
Arbitrage rebate expense	154,183	111,768
Salaries	98,615	98,660
Trustee fees	44,092	42,948
Provision for loan losses	(300,000)	(400,000)
	7,915,246	7,789,603
CHANGE IN NET ASSETS	2,223,699	1,309,476
NET ASSETS, beginning	6,527,465	5,217,989
NET ASSETS, ending	\$ 8,751,164	\$ 6,527,465

See notes to financial statements.

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2005 and 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received for the following:		
Loan payments	\$ 18,318,094	\$ 17,165,829
Interest collected on loans	8,101,422	7,430,386
Interest collected on investments	1,158,039	1,265,369
Other income	697,588	620,481
Total cash received	28,275,143	26,482,065
Cash paid for the following:		
Loans disbursed	(17,917,527)	(11,983,046)
Bond Interest	(5,445,055)	(6,133,503)
Other expenses	(2,296,544)	(1,793,248)
Total cash disbursed	(25,659,126)	(19,909,797)
Net Cash Provided by Operating Activities	2,616,017	6,572,268
 CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of restricted investments	(27,900,259)	(2,311,878)
Net Cash Used in Investing Activities	(27,900,259)	(2,311,878)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Issuance of bonds	37,355,000	18,195,414
Bond issuance costs	(1,368,623)	(853,375)
Payments on bond principal	(21,825,000)	(17,145,000)
Net Cash Provided by Noncapital Financing Activities	14,161,377	197,039
Net (decrease) increase in cash and cash equivalents	(11,122,865)	4,457,429
CASH AND CASH EQUIVALENTS, Beginning	19,546,472	15,089,043
CASH AND CASH EQUIVALENTS, Ending	\$ 8,423,607	\$ 19,546,472

See notes to financial statements.

	<u>2005</u>	<u>2004</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Change in net assets	\$ 2,223,699	\$ 1,309,476
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Amortization of bond issuance costs	340,657	361,301
Amortization of deferred amount on refunding	111,220	20,224
Amortization of bond discount	5,795	9,149
Amortization of bond premium	(6,827)	(44,757)
Provision for loan losses	(300,000)	(400,000)
Change in assets and liabilities:		
Decrease in loans receivable	1,111,368	5,182,783
(Increase) decrease in interest receivable on investments	(297,341)	29,326
Decrease in interest receivable on loans receivable	115,445	99,743
(Decrease) increase in accounts payable and accrued liabilities	(14,889)	58,869
(Decrease) increase in arbitrage rebate payable	(960,972)	8,324
Increase (decrease) in accrued interest payable	330,638	(18,575)
Decrease in deferred revenue	(42,776)	(43,595)
 Net Cash Provided by Operating Activities	 \$ 2,616,017	 \$ 6,572,268

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

Cash and cash equivalents - unrestricted	1,545,601	1,809,257
Cash and cash equivalents - restricted	6,878,006	17,737,215
	<u>\$ 8,423,607</u>	<u>\$ 19,546,472</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Deferred amount on refunding recorded through reduction of bond issuance costs	\$ -	\$ 74,417
---	------	-----------

**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 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 (see Note 4). The proceeds from the 2005 Series B bonds were used to refund the 1993 and 1994 Series A bonds (see Note 4). 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 individual funds as defined by each bond resolution, including but not limited to combinations of

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Bond Funds (Continued) –

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 to be 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 \$7,947,798 and \$18,789,187 as of June 30, 2005 and 2004, 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, MBIA, Inc., FGIC Capital Market Services, IXIS Funding (formerly known as CDC Funding Corporation), Society Generale, Berkshire Hathaway, Inc., Westdeutsche Landesbank, 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, 2005 and 2004.

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. Collection 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 is also presently required to reduce the yield on loans made with the proceeds of certain of its tax-exempt bonds. 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 to 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, 2005 and 2004, the carrying amount of the Authority's unrestricted and restricted cash deposits totaled \$457,969 and \$757,285, respectively. As of June 30, 2005, the bank balance totaled \$184,872, 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, 2005 are as follows:

Bond Series	Number	Balance	Interest Rate (%)
1993A	474	\$ 1,216,246	8.40
1994A	1,275	5,717,880	8.25
1996A	1,390	8,701,186	8.10
1998A&B	1,167	9,176,950	7.50
1999A	663	6,568,067	7.50
1999B	295	2,307,604	7.50
2000A	1,015	10,347,798	7.25
2000B	383	3,534,137	7.25
2001A*	1,570	15,360,382	6.7 & 9.7
2003A	1,073	13,632,625	4.99
2003B**	1,418	9,700,444	4.99 & 9.2
	<u>10,723</u>	86,263,319	
Add: Non-performing loans		1,793,301	
Less: Allowance for loan losses		<u>(2,300,000)</u>	
		<u>\$ 85,756,620</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.

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, 2005 and 2004, non-performing loans totaled \$1,793,301 and \$1,247,853, respectively, for which interest income of approximately \$134,200 and \$102,900 respectively, was not accrued.

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

NOTE 3 – LOANS RECEIVABLE (Continued)

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 \$285,392 and \$364,337 for the years ended June 30, 2005 and 2004, respectively, which had been previously provided for through the allowance for loan losses. The Authority recovered \$392,583 and \$425,929 in fiscal 2005 and 2004, 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, 2005 and 2004.

	Balance at June 30, 2003	Increases	Decreased	Balance at June 30, 2004	
Bonds payable - principal	\$ 114,260,000	\$ 31,035,997	\$ 30,075,384	\$ 115,220,613	
	Balance at June 30, 2004	Increases	Decreased	Balance at June 30, 2005	Amount Due Within One Year
Bonds payable - principal	\$ 115,115,000	\$ 37,355,000	\$ 21,825,000	\$ 130,645,000	\$ 5,295,000
Discount	(272,393)	(331,030)	(5,795)	(597,628)	(19,870)
Premium	499,349	99,236	6,825	591,760	38,170
Deferred amount on refunding	(121,343)	(338,978)	(39,998)	(420,323)	(88,020)
	<u>\$ 115,220,613</u>	<u>\$ 36,784,228</u>	<u>\$ 21,786,032</u>	<u>\$ 130,218,809</u>	<u>\$ 5,225,280</u>

The bonds of the Authority bear interest at rates, varying between 1.7% and 6.4%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2005 is as follows:

Year Ending June 30,	Principal	Interest
2006	\$ 5,295,000	\$ 6,043,591
2007	6,860,000	5,565,930
2008	7,815,000	5,277,659
2009	6,615,000	4,980,849
2010	7,865,000	4,671,326
2011-2015	55,410,000	15,791,543
2016-2020	33,785,000	4,946,381
2021-2025	7,000,000	291,688
	<u>\$ 130,645,000</u>	<u>\$ 47,568,967</u>

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

NOTE 4 – BONDS PAYABLE (Continued)

Outstanding principal of each bond issue at June 30, 2005 and 2004 is as follows:

	Original Amount	Outstanding June 30, 2005	Outstanding June 30, 2004
1993 Series A, 4.4%-5.875%, due serially November 15, 1997 to November 15, 2013	\$ 10,000,000	\$ -	\$ 2,510,000
1994 Series A, 4.9%-6.4%, due serially November 15, 1998 to November 15, 2014	25,000,000	-	8,230,000
1996 Series A, 4.75%-5.875%, due serially from November 15, 2001 to November 15, 2017	25,000,000	9,820,000	12,035,000
1998 Series A, 4.10%-5.15%, due serially from November 15, 2002 to November 15, 2016	15,000,000	5,615,000	7,880,000
1998 Series B, 4%-4.875%, due serially from November 15, 2001 to November 15, 2010	3,560,000	2,935,000	2,935,000
1999 Series A, 4.7%-6%, due serially from November 15, 2002 to November 15, 2017	12,500,000	5,440,000	7,300,000
1999 Series B, 4.5%-6%, due serially from November 15, 2002 to November 15, 2012	4,390,000	3,995,000	3,995,000
2000 Series A, 4.625%-5.5%, due serially from November 15, 2008 to November 15, 2020	16,410,000	10,000,000	12,095,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	3,845,000	4,645,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000	22,575,000	22,575,000
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	17,000,000	18,000,000
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	12,065,000	12,915,000
2005 Series A, 2.5%-4.375% due serially from November 15, 2005 to November 15, 2021	31,455,000	31,455,000	-
2005 Series B, 4% due serially from November 15, 2008 to 2010	5,900,000	5,900,000	-
	<u>\$ 211,105,000</u>	<u>\$ 130,645,000</u>	<u>\$ 115,115,000</u>

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

NOTE 4 – BONDS PAYABLE (Continued)

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, 2005 and 2004, the Authority redeemed bonds in the following amounts:

	<u>2005</u>	<u>2004</u>
1991 Series A	\$ -	\$ 1,800,000
1993 Series A	235,000	580,000
1994 Series A	765,000	1,900,000
1996 Series A	1,555,000	2,300,000
1998 Series A	1,990,000	2,610,000
1999 Series A	1,670,000	2,140,000
2000 Series A	2,095,000	1,685,000
2001 Series A	-	1,045,000
	<u>\$ 8,310,000</u>	<u>\$ 14,060,000</u>

Debt Refunding – During the year ended June 30, 2004, the Authority issued \$12,915,000 of 2003 Series B bonds with an average interest rate of approximately 3.85% to refund \$4,915,000 of 1991 Series A bonds with a stated interest rate of 7.2% and \$8,000,000 of Series 1 bonds which were a short-term interim refinancing of various bonds with rates ranging from 5.625% to 8.40%. The primary purpose of the refunding was to refinance current obligations of the Authority on a long-term basis. The refunding increased the Authority's total debt service payments over the next 10 years by approximately \$2,250,000 and resulted in an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately \$909,000. The reacquisition price exceeded the carrying amount of the old bonds by \$141,567. This amount is being netted against the new bonds and amortized over the life of the refunded 1991 Series A bonds, which is shorter than the remaining life of the new bonds issued.

During the year ended June 30, 2005, the Authority issued \$5,900,000 of 2005 Series B bonds with an average interest rate of approximately 4% and utilized \$2,670,000 of proceeds from previous bond offerings to refund \$2,020,000 of 1993 Series A bonds and \$6,650,000 of 1994 Series A bonds with an average interest rate of approximately 6.06%. 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 10 years by approximately \$2,770,000 and resulted in an economic gain (difference between the present values of the debt service payments of the old and new bonds) of approximately \$2,424,010. The reacquisition price exceeded the carrying amount of the old bonds by \$338,978. This amount is being netted against the new bonds and amortized over the life of the 2005 Series B bonds, which is shorter than the remaining life of the refunded bonds.

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

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, 2005 and 2004, 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 \$102,000 for each of the years ended June 30, 2005 and 2004. In addition, the Authority reimbursed CCIC directly for actual general and administrative expenses incurred.

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 2005 and 2004, the Authority made contributions of \$8,231 and \$7,890, 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.

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 financial statements of Connecticut Higher Education Supplemental Loan Authority for the year ended June 30, 2005 appears on page 1. This audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information contained on pages 24 to 26 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements, and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

The accompanying supplementary information for the year ended June 30, 2004 was audited by other auditors, whose report dated September 3, 2004 expressed an unqualified opinion on those statements.

Rocky Hill, Connecticut
September 9, 2005

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS
JUNE 30, 2005 AND 2004

	JUNE 30, 2005			JUNE 30, 2004			
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS		
		PRE 2003	2003	TOTAL	PRE 2003	2003	TOTAL
ASSETS							
CURRENT ASSETS							
Unrestricted assets:							
Cash and cash equivalents	\$ 1,545,601	\$ -	\$ -	\$ 1,545,601	\$ -	\$ -	\$ 1,809,257
Current portion of loans receivable, net of allowances for loan losses of \$2,300,000 in 2005 and \$2,600,000 in 2004	-	11,138,227	5,819,412	16,957,639	12,639,773	2,426,624	15,066,397
Interest receivable on investments	3,859	62,606	368,745	435,210	102,119	33,994	137,869
Interest receivable on loans receivable	-	260,800	110,018	370,818	433,056	53,207	486,263
Total unrestricted assets	1,549,460	11,461,633	6,298,175	19,309,268	13,174,948	2,513,825	17,499,786
Restricted assets:							
Cash and cash equivalents	-	3,115,382	3,762,624	6,878,006	-	5,046,059	12,691,156
Investments	-	7,851,535	30,761,558	38,613,093	6,557,220	2,655,614	9,212,834
Connecticut Higher Education Trust	2,085	-	-	2,085	2,715	-	2,715
Total restricted assets	2,085	10,966,917	34,524,182	45,493,184	11,603,279	15,346,770	26,952,764
Total current assets	1,551,545	22,428,550	40,822,357	64,802,452	24,778,227	17,860,595	44,452,550
NON-CURRENT ASSETS							
Restricted investments	-	1,800,000	5,200,000	7,000,000	-	6,300,000	8,500,000
Loans receivable, net of current portion	-	45,141,342	23,657,639	68,798,981	59,938,858	11,562,733	71,501,591
Bond issuance costs, net of accumulated amortization of \$2,786,922 in 2005 and \$2,426,520 in 2004	1,269,905	367,669	807,010	2,444,584	1,157,728	290,292	2,057,962
Total non-current assets	1,269,905	47,309,011	29,664,649	78,243,565	66,848,800	14,053,025	82,059,533
Total Assets	\$ 2,821,450	\$ 69,737,561	\$ 70,487,006	\$ 143,046,017	\$ 91,627,027	\$ 31,913,620	\$ 126,512,103

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS (CONTINUED)
JUNE 30, 2005 AND 2004

	JUNE 30, 2005		JUNE 30, 2004		TOTAL		
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND		BOND FUNDS	
		PRE 2003	2003			PRE 2003	2003
LIABILITIES							
CURRENT LIABILITIES							
Current portion of bonds payable	\$ -	\$ 2,100,000	\$ 3,125,280	\$ 5,225,280	\$ -	\$ 4,846,352	
Accounts payable and accrued liabilities	52,004	18,871	19,645	90,520	2,715	105,391	
Current portion of arbitrage rebate payable	-	154,183	-	154,183	-	29,667	
Accrued interest payable	-	429,784	593,403	1,023,187	-	692,549	
Due to/(from) other funds	(2,54,485)	(3,822,984)	4,077,469	-	(100,509)	-	
Current portion of deferred revenue	-	352,837	52,547	405,384	-	414,766	
Total current liabilities	(202,481)	(767,309)	7,868,344	6,898,554	(97,794)	6,088,725	
LONG-TERM LIABILITIES							
Bonds payable, net of current portion	-	62,125,000	62,868,529	124,993,529	-	110,374,261	
Arbitrage rebate payable, net of current portion	-	130,736	-	130,736	-	1,216,224	
Deferred revenue, net of current portion	-	1,779,426	492,608	2,272,034	-	2,305,428	
Total long-term liabilities	-	64,035,162	63,361,137	127,396,299	-	113,895,913	
Total liabilities	(202,481)	63,267,853	71,229,481	134,294,853	(97,794)	119,984,638	
UNRESTRICTED NET ASSETS							
	3,023,931	6,469,708	(742,475)	8,751,164	3,069,250	6,527,465	
	\$ 2,821,450	\$ 69,737,561	\$ 70,487,006	\$ 143,046,017	\$ 2,971,456	\$ 126,512,103	

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
JUNE 30, 2005 AND 2004

	JUNE 30, 2005			JUNE 30, 2004		
	AUTHORITY OPERATING FUND	BOND FUNDS		AUTHORITY OPERATING FUND	BOND FUNDS	
		PRE 2003	2003		PRE 2003	2003
		TOTAL			TOTAL	
OPERATING REVENUES						
Interest income on investments	\$ 38,505	\$ 772,059	\$ 810,564	\$ 22,009	\$ 873,084	\$ 895,093
Interest income on loans receivable	-	6,468,163	6,468,163	-	6,295,021	6,295,021
Administrative fees	697,588	-	697,588	630,900	-	630,900
Other operating income	-	-	-	-	-	53,550
	<u>736,093</u>	<u>7,240,222</u>	<u>7,976,315</u>	<u>652,909</u>	<u>7,168,105</u>	<u>7,821,014</u>
Total operating revenues			10,138,945			9,099,079
OPERATING EXPENSES						
Interest expense	-	3,989,528	3,989,528	-	4,946,755	4,946,755
Administrative fees	-	483,306	483,306	-	539,323	539,323
Loan collection fees	-	591,883	591,883	-	346,047	346,047
General and administrative expenses	256,970	67,968	324,938	262,848	43,039	305,887
Amortization of bond issuance costs	221,739	56,495	278,234	194,781	102,443	297,224
Professional fees	204,088	-	204,088	172,200	-	172,200
Arbitrage rebate expense	-	154,183	154,183	-	111,768	111,768
Salaries	98,615	-	98,615	98,660	-	98,660
Trustee fees	-	36,092	36,092	-	42,948	42,948
Provision for loan losses	-	(700,000)	(700,000)	-	(800,000)	(800,000)
	<u>781,412</u>	<u>4,679,455</u>	<u>5,460,867</u>	<u>728,489</u>	<u>5,332,323</u>	<u>6,061,312</u>
Total operating expenses			7,915,246			7,789,603
CHANGE IN NET ASSETS						
NET ASSETS, beginning	(45,319)	2,560,767	2,515,448	(75,580)	1,835,782	1,760,202
NET ASSETS, ending	3,069,250	3,908,941	6,978,191	3,144,830	2,073,159	5,221,989
	<u>\$ 3,023,931</u>	<u>\$ 6,469,708</u>	<u>\$ 8,751,164</u>	<u>\$ 3,069,250</u>	<u>\$ 3,908,941</u>	<u>\$ 6,527,465</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 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 year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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 audit, 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*.

Board of Directors
CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
Page 2

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 9, 2005

Exhibit B

Loans Disbursed 1990-2005

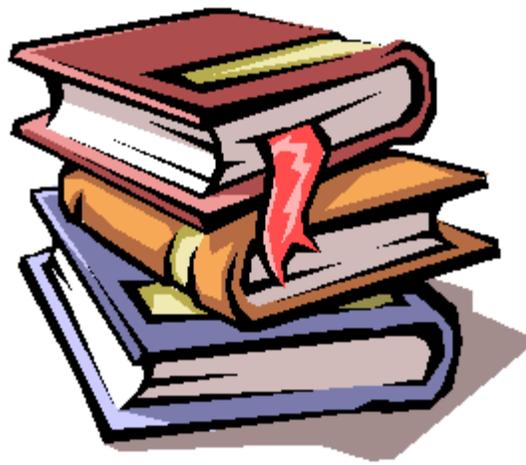


Connecticut Higher Education Supplemental Loan Authority - CT FELP Historical Lending

Institution	Pre 1996 Series A		1996 Series A		1998 Series A & B		1999 Series A & B		2000 Series A & B		2001 Series A & B		2003 Series A & B		Total Number Of Students	Total Distribution to Students
	Number of Pre-96 Loans	Amount of Pre-96 Loans	Number of 8.1% Loans	Amount of 8.1% Loans	Number of 7.5% Loans	Amount of 7.5% Loans	Number of 7.5% Loans	Amount of 7.5% Loans	Number of 7.25% Loans	Amount of 7.25% Loans	Number of 6.70% Loans	Amount of 6.70% Loans	Number of 4.99% Loans	Amount of 4.99% Loans		
	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.	Disb.		
Albertus Magnus College	146	\$989,354	25	\$172,276	11	\$88,375	10	\$78,465	16	\$117,106	14	\$114,498	8	\$80,243	230	\$1,640,317
Capital Community College	1	\$3,500	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	3	\$12,000	4	\$15,500
Charter Oak State College	2	\$6,678	4	\$12,247	3	\$8,700	1	\$6,800	0	\$0	0	\$0	0	\$0	10	\$34,425
Central Connecticut State University	233	\$1,005,992	35	\$211,297	24	\$151,684	30	\$181,705	29	\$166,329	48	\$335,568	59	\$494,465	458	\$2,547,040
Connecticut College	190	\$2,022,122	43	\$473,106	25	\$278,396	18	\$159,380	27	\$307,343	7	\$94,540	4	\$59,284	314	\$3,394,171
Eastern Connecticut State University	180	\$819,483	29	\$152,032	50	\$254,986	46	\$247,572	80	\$453,760	53	\$314,629	67	\$457,738	505	\$2,700,200
Fairfield University	642	\$5,674,977	167	\$1,809,330	139	\$1,737,997	112	\$1,433,440	159	\$1,979,495	103	\$1,362,341	90	\$1,170,839	1,412	\$15,168,419
Gateway Community College	3	\$8,725	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	3	\$8,725
Goodwin College, Inc.	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0
Gradute Institute	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	8	\$74,711	8	\$74,711
Housatonic Community College	0	\$0	0	\$0	0	\$0	0	\$0	1	\$2,734	0	\$0	0	\$0	1	\$2,734
Rensselaer at Hartford	15	\$84,140	2	\$15,300	0	\$0	0	\$0	0	\$0	1	\$11,000	0	\$0	18	\$110,440
Lyme Academy of Fine Arts	0	\$0	1	\$13,074	0	\$0	0	\$0	2	\$14,500	0	\$0	1	\$11,815	4	\$39,389
Manchester Community College	4	\$14,243	1	\$2,500	0	\$0	0	\$0	0	\$0	0	\$0	2	\$7,000	7	\$23,743
Mitchell College	13	\$144,766	12	\$92,128	8	\$82,240	2	\$12,500	1	\$11,000	0	\$0	1	\$17,000	37	\$359,634
Naugatuck Valley Comm. College	7	\$18,000	0	\$0	0	\$0	0	\$0	0	\$0	1	\$3,000	0	\$0	8	\$21,000
Northwestern CT Comm. College	4	\$21,400	2	\$14,925	0	\$0	1	\$3,900	1	\$2,000	112	\$1,364,002	0	\$0	120	\$1,406,227
Quinnipiac University	704	\$5,500,790	290	\$2,838,073	156	\$1,461,043	108	\$1,107,251	151	\$1,638,380	2	\$18,769	170	\$2,403,214	1,581	\$14,967,519
Quinnipiac University School of Law	5	\$26,649	2	\$16,300	25	\$293,617	0	\$0	3	\$21,084	256	\$3,076,193	1	\$16,094	292	\$3,449,937
Sacred Heart University	380	\$2,736,096	236	\$2,127,222	215	\$2,153,100	247	\$2,599,998	308	\$3,401,597	80	\$1,271,016	381	\$5,253,923	1,847	\$19,542,951
Southern CT State University	147	\$686,774	17	\$74,189	11	\$66,925	8	\$44,540	18	\$102,416	29	\$300,964	30	\$234,828	260	\$1,510,636
Saint Joseph College	214	\$1,463,633	98	\$713,831	51	\$401,268	30	\$257,987	35	\$297,168	1	\$6,000	29	\$252,624	458	\$3,392,511
Saint Vincent College	7	\$45,118	2	\$8,000	0	\$0	1	\$6,000	3	\$16,500	5	\$40,100	0	\$0	18	\$115,718
Teikyo Post University	63	\$405,567	6	\$32,674	2	\$19,000	0	\$0	6	\$35,950	2	\$16,750	11	\$81,596	90	\$591,537
Three Rivers Community College	1	\$2,400	0	\$0	0	\$0	1	\$5,000	0	\$0	8	\$113,800	3	\$13,386	13	\$134,586
Trinity College	143	\$1,379,705	32	\$343,036	21	\$255,573	15	\$199,987	14	\$193,405	1	\$12,000	4	\$18,760	230	\$2,402,466
Tunxis Community College	3	\$9,430	1	\$3,554	2	\$7,000	0	\$0	2	\$4,305	7	\$54,299	2	\$7,250	17	\$85,838
University of Bridgeport	156	\$1,091,493	12	\$71,451	7	\$60,635	3	\$25,598	28	\$219,854	0	\$0	4	\$33,854	210	\$1,502,885
UConn. - School of Law	16	\$96,462	1	\$10,000	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	17	\$106,462
UConn. - School of Social Work	24	\$129,219	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	1	\$4,500	25	\$133,719
UConn. - Dental/Health Center	76	\$576,251	11	\$65,285	0	\$0	0	\$0	0	\$0	2	\$12,706	0	\$0	89	\$654,242
UConn. - School of Medicine	9	\$51,500	3	\$16,235	0	\$0	0	\$0	0	\$0	31	\$234,378	0	\$0	43	\$302,113
UConn. - Storrs Campus	1,365	\$7,367,727	212	\$1,183,389	150	\$938,053	40	\$308,437	48	\$305,250	259	\$2,998,589	104	\$810,146	2,178	\$13,911,591
University of Hartford	743	\$6,297,879	250	\$2,257,276	262	\$2,778,316	313	\$3,566,504	376	\$4,260,223	56	\$708,478	293	\$3,715,358	2,293	\$23,584,034
University of New Haven	227	\$1,588,133	74	\$661,178	28	\$228,914	17	\$198,883	20	\$218,365	8	\$127,300	22	\$223,026	396	\$3,245,799
Wesleyan University	356	\$3,304,422	105	\$1,438,767	86	\$1,228,556	30	\$493,070	24	\$423,680	16	\$146,855	3	\$52,500	620	\$7,087,850
Western CT State University	34	\$179,343	8	\$35,540	9	\$45,340	7	\$39,300	11	\$81,900	2	\$13,921	15	\$123,875	86	\$519,029
Wilcox College of Nursing	4	\$19,950	1	\$2,000	0	\$0	0	\$0	0	\$0	123	\$2,169,044	0	\$0	128	\$2,190,994
Yale College	760	\$8,543,859	212	\$2,605,065	199	\$2,896,125	128	\$2,005,069	161	\$2,746,851	21	\$367,084	144	\$2,239,284	1,625	\$21,403,337
Yale - Graduate School	45	\$381,412	13	\$103,105	14	\$197,500	2	\$27,000	2	\$36,825	1	\$15,000	0	\$0	77	\$760,842
Yale - School of Art	12	\$87,270	1	\$5,000	1	\$13,925	1	\$5,000	2	\$25,311	0	\$0	0	\$0	17	\$136,506
Yale - School of Drama	2	\$7,400	1	\$2,500	0	\$0	0	\$0	1	\$9,335	0	\$0	0	\$0	4	\$19,235
Yale - School of Forestry	0	\$0	0	\$0	0	\$0	0	\$0	2	\$17,000	4	\$47,650	0	\$0	6	\$64,650
Yale - School of Law	120	\$1,220,674	87	\$903,192	40	\$551,400	21	\$272,282	13	\$154,390	0	\$0	1	\$4,700	282	\$3,106,638
Yale - School of Medicine	122	\$981,802	4	\$49,867	10	\$60,800	0	\$0	0	\$0	2	\$16,139	0	\$0	138	\$1,108,608
Yale - School of Nursing	53	\$376,171	25	\$170,474	8	\$79,600	12	\$117,051	11	\$100,686	2	\$12,367	3	\$34,886	114	\$891,235
Yale - School of Management	230	\$1,870,868	52	\$573,289	5	\$66,660	20	\$355,345	18	\$315,814	0	\$0	0	\$0	325	\$3,181,976
Total Disbursed to Students-																
Attending Connecticut Institutions	7,461	\$57,241,377	2,077	\$19,278,517	1,562	\$16,405,728	1,224	\$13,758,064	1,573	\$17,680,556	1,257	\$15,378,980	1,464	\$17,908,898	16,618	\$157,652,119
10.98% Loans	1,575	\$9,138,627.00													1,575	\$9,138,627
Total Disbursed to CT Students-																
Attending Out-of-State Institutions	1,886	\$16,305,076.00	465	\$4,724,350	321	\$3,583,602	265	\$3,154,686	351	\$4,372,899	305	\$3,903,775	403	\$5,403,800	3,996	\$41,448,187
Grand Total	10,922	\$82,685,080.00	2,542	\$24,002,867	1,883	\$19,989,330	1,489	\$16,912,749	1,924	\$22,053,454	1,562	\$19,282,755	1,867	\$23,312,698	22,189	\$208,238,934

Exhibit C

2005 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

* * * * *

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

TABLE OF CONTENTS

	Page
I. GUIDELINES	4
A. PURPOSE	4
B. DEFINITIONS	4
C. OVERVIEW OF FAMILY EDUCATION LOAN PROGRAM.....	7
1. Amount	7
2. Frequency of Loans.....	8
3. Interest Rate	8
4. Repayment Term and Schedule	8
5. Promissory Note.....	8
6. Mortgages	9
7. Credit Life Insurance	9
8. Reserve Fee	9
9. Nondiscrimination.....	9
10. Borrowers not to Acquire Bonds	9
D. APPLICATION PROCESS	9
1. Obtaining the Application.....	9
2. Submitting the Application	9
3. School Certification Form and Calculation of Net Cost of Education	9
E. LOAN ORIGINATION	10
1. Application Processing by the Servicer	10
2. Debt-to-Income Determination by Servicer.....	11
3. Credit Analysis by the Servicer	11
4. Credit History.....	12
F. LOAN APPROVAL/DISAPPROVAL	12
1. Limited Review of Applications Which Exceed Debt-to-Income Ratio	12
2. Approval of Loans in Lesser Amount.....	13
3. Notice of Adverse Determination	13
4. Time Period for Approval/Disapproval	13
5. Loan Disbursement Process.....	13
6. Receipt of Check.....	14
G. LOAN SERVICING AND REPAYMENT	14
1. Transmittal of Information.....	14
2. Monthly Statements	14
3. Processing of Payments Received	15
4. Application of Loan Payments.....	15
5. Loan Repayments.....	15
6. Prepayments	15
7. Payments in Full	15

H. LOAN COLLECTION PROCESS 16

- 1. Servicing of Delinquent Loans 16
- 2. Delinquency Requirements 16
- 3. Defaults 16
- 4. Death of Borrower or Co-Borrower..... 16
- 5. Bankruptcy 16
- 6. Due Diligence 16

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 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. “Eligible Student” also means a student who is not a resident of Connecticut, but who is enrolled and pursuing 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.

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

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
SUPPLEMENTAL LOAN AUTHORITY
FAMILY EDUCATION LOAN PROGRAM
PROGRAM MANUAL

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.

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

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
SUPPLEMENTAL LOAN AUTHORITY
FAMILY EDUCATION LOAN PROGRAM
PROGRAM MANUAL

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.

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%

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

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 "2005 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.

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%