

Connecticut Higher Education Supplemental Loan Authority
(CHESLA)

2012 Annual Report



www.chesla.org

21 Talcott Notch Road, Suite 1
Farmington, CT 06032
860-678-7788-Phone, 860-678-0006-Fax

Helping Students and their Families Invest in the Future.

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 Board in FY2012

Ex Officio Members:

- State Treasurer Denise Nappier
(Represented by Sarah Sanders)
- Secretary of the Office of Policy & Management Benjamin Barnes
(Represented by Steve Kitowicz)
- President of the Board of Regents for Higher Education Dr. Robert A. Kennedy
(Represented by Michael Meotti)

Appointed Members: (The remaining five members are appointed by the Governor based on their qualifications in the areas of higher education and/or public finance, as specified in Section 4 of the enabling legislation.)

<u>Name</u>	<u>Expiration of Term</u>	<u>Statutory Qualifications</u>
William J. Pizzuto	2012	Employee of constituent unit of state higher education system
Julie B. Savino	2011	Experience in higher education loan finance
Martin L. Budd	2017	Experience in higher education loan finance
Delores P. Graham	2015	Retired employee/trustee of institution for higher education
Michael E. McKeeman	2014	Experience in state and municipal finance

Officers

- Board Chair- Mr. Michael E. McKeeman was appointed as Chair of the Authority in 1999 by Governor John G. Rowland and was confirmed by the General Assembly during its 1999 Regular Session. Mr. McKeeman was nominated for reappointment by Governor M. Jodi Rell and confirmed by the General Assembly during the 2009 Regular Session.
- Vice Chair-Julie B. Savino, Vice Chair

Staff

- Judith B. Greiman, Executive Director, greimanj@theccic.org
- Samuel E. Rush, Deputy Director, chesla1@chesla.org
- Joshua Hurlock, Loan Portfolio and Marketing Assistant, chesla2@chesla.org

Key Administrative Activities

- Approved the FY2011 Audit.
- Received a presentation and report from Connecticut Economic Resource Center (CERC) on CHESLA's Market Analysis.
- Approved a resolution authorizing the refunding of 1990 Trust portfolio bonds.
- Approved a new Personnel Manual.
- Approved the FY2011 Annual Report.
- Appointed Advisory Committee Members for 2012.
- Approved Meeting Dates for 2012.
- Approved Quarterly Financial Statements for FY2012.
- Received a presentation from Education Finance Council (EFC) President Vince Sampson on developments and prospects in the student loan industry.
- Ratified additional Attorney cost attributed to Management Planning.
- Received a presentation from Connecticut Health & Education Facilities Authority (CHEFA) Executive Director Jeffrey Asher about CHEFA.
- Ratified the 2012 Bond Refunding.
- Ratified the 2% Loan Yield Committee actions regarding the reorganization of the 1990 Trust portfolio, additional expenses for AMTEC and the reduction in interest rate for 2001 Series A loans.
- Approved a contract for accounting services.
- Approved a change in the Personnel Manual related to acceptance of gifts.
- Approved a policy regarding deceased borrowers.

- Approved a resolution regarding the merger of CHESLA into CHEFA as a subsidiary and the extension of the FY2012 budget and plan of operation until July 31, 2012.

Affirmative Action

The Authority’s affirmative action policy statement, as required by Connecticut General Statutes Section 10a-224(h)(2): It is the policy of CHESLA to provide equal employment opportunity at all times in accordance with State Statutes. Equal employment opportunity is defined as the administration of all personnel policies - employment applications; job qualifications; job specifications; recruitment practices; job structuring; orientation; grievance procedures; evaluation; layoffs and termination - so that there is no discrimination based on race, ethnicity, religion, age, gender, sexual orientation, marital status, civil union status, national origin, ancestry, mental disabilities or any other disability that does not prevent successful job performance.

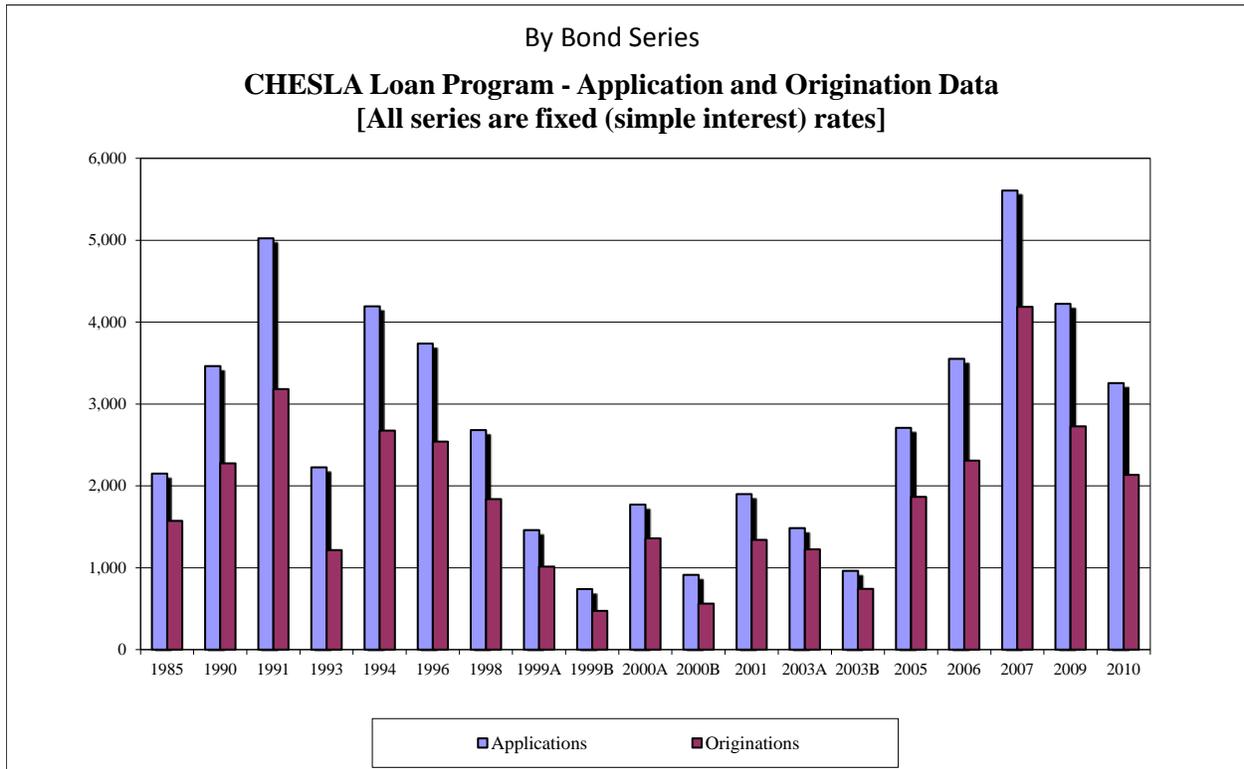
Notwithstanding the foregoing, it shall be the policy of CHESLA to take positive action, with conviction and effort, to achieve the full and fair participation of protected class persons.

In addition to its non-discrimination policies and practices, the Connecticut Higher Education Supplemental Loan Authority shall require a statement of non-discrimination from all entities with which it enters into contractual or other business arrangements. As of June 30, 2012, CHESLA had two employees: a Deputy Director (1 African-American male) and a Portfolio and Marketing Assistant (1 Caucasian Male).

Payments in Excess of \$5,000 (excluding loans for education):

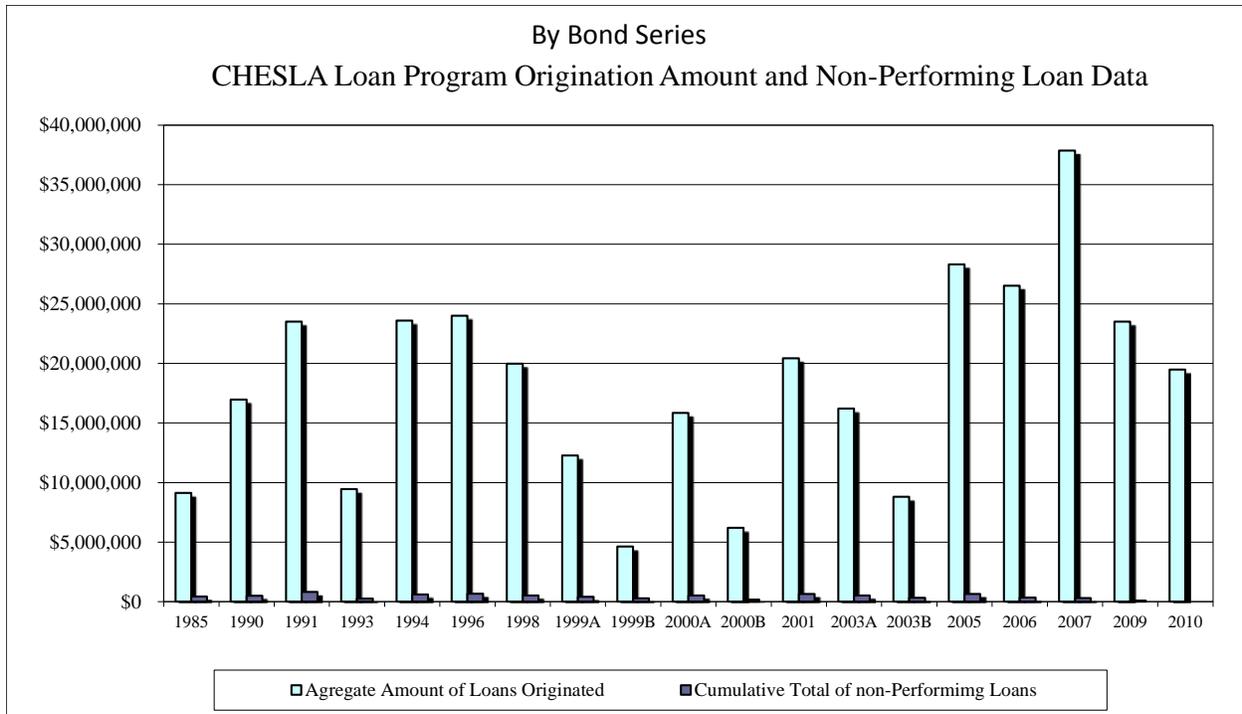
American Express	Credit/Financial
AMTEC	Loan Yield/Arbitrage Rebate
Ballard Spahr Andrews & Ingersoll, LLP	Underwriter Counsel
Beers, Hamerman & Co., P.C	Accountant
Benefit Center	Health Reimbursement Plan
Blum Shapiro	Auditor
EOS CCA	Collection Agency
Connecticut Conference of Independent Colleges	Personal Services/Shared Office Space
Connecticare	Medical Insurance
Day Pitney LLP	Legal/Bond Counsel
Education Finance Council	Professional Membership
Firstmark Services	Loan Origination & Servicing
Fitch Rating	Rating Agency
Moody’s	Rating Agency
PFM Group	Financial Advisor
RBC Capital Markets	Underwriter
R.C. Knox & Co., Inc./Peoples United Insurance	Insurance Broker/Insurance Fees
Shipman & Goodwin	Trustee Counsel
U.S. Bank National Association	Trustee
Vanguard Fiduciary Trust Co.	Pension Plan
Victor Advertising Services	Marketing Promotions
Websolutions	Web Design and Host

Funding for the CHESLA Loan Program



Applications Received by Bond Series - 1985 (2,150), 1990 (3,462), 1991(5,022), 1993 (2,226), 1994 (4,193), 1996 (3,737), 1998 (2,681), 1999A (1,460), 1999B (739), 2000A (1,771), 2000B (915), 2001 (1,900), 2003A (1,484) 2003B (964) 2005 (2,710) 2006 (3,552) 2007 (5,607), 2009 (4,223), and 2010 (3,257).

Loans Originated by Bond Series - 1985 (1,575), 1990 (2,275), 1991 (3,181), 1993 (1,215), 1994 (2,676), 1996 (2,542), 1998 (1,840), 1999A (1,014), 1999B (475), 2000A (1,360), 2000B (564), 2001 (1,341), 2003A (1,225), 2003B (743), 2005 (1,866) 2006 (2,308) 2007 (4,188), 2009 (2,726) and 2010 (2,136).



Aggregate Amount of Loans Originated - 1985 (\$9,138,627), 1990 (\$16,978,127), 1991 (\$23,509,883), 1993 (\$9,457,002), 1994 (\$23,601,441), 1996 (\$24,002,867), 1998 (\$19,989,330), 1999A (\$12,283,780), 1999B (\$4,628,969), 2000A (\$15,853,387), 2000B (\$6,200,067), 2001 (\$20,433,303), 2003A (\$16,212,316), 2003B (\$8,813,427) 2005 (\$28,321,052) 2006 (\$26,527,184) 2007 (\$37,871,341), 2009 (\$23,506,638) and 2010 (\$19,481,010).

Cumulative Total of Non-Performing Loans - 1985 (\$433,731), 1990 (\$497,899), 1991 (\$816,965), 1993 (\$266,270), 1994 (\$599,681), 1996 (\$668,266), 1998 (\$520,330), 1999A (\$406,016), 1999B (\$286,615), 2000A (\$521,437) 2000B (\$181,811), 2001A (\$656,386), 2003A (\$515,972), 2003B (\$324,913), 2005 (\$661,208), 2006 (\$352,354), 2007 (\$299,830), 2009 (\$85,618) and 2010 (\$0). Total non-performing loans \$8,095,301.

Net Non-Performing Default Rate - 1985 (4.75%), 1990 (2.93%), 1991 (3.47%), 1993 (2.82%), 1994 (2.54%), 1996 (2.78%), 1998 (2.60%), 1999A (3.31%), 1999B (6.19%), 2000A (3.29%), 2000B (2.93%), 2001 (3.21%), 2003A (3.18%), 2003B (3.69%), 2005A(2.33%), 2006 (1.33)%, 2007 (0.79%), 2009 (0.36%) and 2010 (0.00%). Total net non-performing default rate (2.33%)

Financial assistance activity information was compiled from student loans originated as follows:

- 1985 Series A Bonds - October 1, 1985 to October 30, 1988;
- 1990 Series A Bonds - August 22, 1990 to September 6, 1991
- 1991 Series A Bonds - September 12, 1991 to August 5, 1993;
- 1993 Series A Bonds - August 12, 1993 to August 20, 1994;
- 1994 Series A Bonds - August 26, 1994 to September 20, 1996;
- 1996 Series A Bonds - October 5, 1996 to September 5, 1998;
- 1998 Series A & B Bonds - September 11, 1998 to June 30, 1999;

1999 Series A & B Bonds - October 27, 1999 to November 24, 2000;
2000 Series A & B Bonds - December 15, 2000 to May 1, 2002; and
2001 Series A Bonds - May 5, 2002 to Aug. 11, 2004 (includes recycling)
2003 Series A & B Bonds - July 23, 2003 to August 10, 2005
2005 Series A& B Bonds - August 10, 2005 to June 30, 2006
2006 Series A Bonds - August 17, 2006 to June30, 2007
2007 Series A Bonds - August 23, 2007 to June 30, 2008
2009 Series A Bonds - August 4, 2009 to May 13, 2011
2010 Series A Bonds – May 13, 2011 to June 30, 2012

A table showing the total number and amounts of loans disbursed from proceeds of the 1985 through 2010 Series A bond sales is attached as **Exhibit B** to this Annual Report.

A copy of the Loan Program Manual is attached as **Exhibit C** to this Annual Report.

Bond Issuance

The Authority issued Refunding Bonds on March 28, 2012. The 2012 Bonds were sold through a negotiated underwriting with RBC Capital Markets as the underwriter and PFM as the Authority's financial advisor.

As of June 30, 2012, the Authority had issued Revenue Bonds and Revenue Refunding Bonds in the aggregate principal amount of \$454,925,000. The principal amounts of the Authority's outstanding bonds totaled \$166,065,000, including:

<u>Bond Series</u>	<u>Principal Issued</u>	<u>Principal Outstanding</u>
1983 Series -	\$15,500,000	\$0
1985 Series -	\$15,500,000	\$0
1990 Series A -	\$18,000,000	\$0
1990 Series B -	\$420,000	\$0
1991 Series A -	\$25,000,000	\$0
1991 Series B -	\$445,000	\$0
1992 Series A -	\$6,600,000	\$0
1993 Series A -	\$10,000,000	\$0
1994 Series A -	\$25,000,000	\$0
1996 Series A -	\$25,000,000	\$0
1998 Series A -	\$15,000,000	\$0
1998 Series B -	\$3,560,000	\$0
1999 Series A -	\$12,500,000	\$0
1999 Series B -	\$4,390,000	\$540,000
2000 Series A -	\$16,410,000	\$0
2000 Series B -	\$5,975,000	\$895,000
2001 Series A -	\$25,000,000	\$0
2003 Series A -	\$18,000,000	\$7,665,000
2003 Series B -	\$12,915,000	\$5,855,000
2005 Series A -	\$31,455,000	\$17,065,000
2005 Series B -	\$5,900,000	\$0
2006 Series A -	\$33,270,000	\$18,810,000
2007 Series A -	\$41,000,000	\$32,355,000
2009 Series A -	\$30,000,000	\$24,795,000
2010 Series A	\$45,000,000	\$45,000,000
2012 Series A	\$13,085,000	\$13,085,000
Total	\$454,925,000	\$166,065,000

The State's contingent liability, in connection with the 2003, 2005, 2006, 2007, 2009, 2010 and 2012 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, 2012 in the aggregate amount of \$19,395,819.

Projected Activities

The Authority has and will continue to offer education loans from the remaining proceeds of its 2010 Series and plan for a new bond issue in FY13.



Exhibit A - Financials

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY**

CONTENTS

Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-8
Financial Statements:	
Balance Sheets	9
Statements of Revenues, Expenses and Changes in Fund Net Assets	10
Statements of Cash Flows	11-12
Notes to Financial Statements	13-22
Supplemental Information:	
Combining Balance Sheets	23-24
Combining Statements of Revenues, Expenses and Changes in Net Assets	25
Independent Auditors' 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>	26-27



Accounting | Tax | Business Consulting

Independent Auditors' Report

To the Board of Directors
Connecticut Higher Education Supplemental Loan Authority
Hartford, Connecticut

We have audited the accompanying basic financial statements of the Connecticut Higher Education Supplemental Loan Authority (the Authority), a component unit of the State of Connecticut, as of and for the years ended June 30, 2012 and 2011, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of June 30, 2012 and 2011, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, effective July 1, 2012, the Authority was statutorily consolidated into the Connecticut Health and Educational Facilities Authority as a subsidiary.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 8 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audits were conducted for the purpose of forming opinions on the Authority's financial statements. The combining statements are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The combining statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Blum, Shapiro & Company, P.C.

September 11, 2012

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

INTRODUCTION

The following Management's Discussion and Analysis (MD&A) of the financial statements of Connecticut Higher Education Supplemental Loan Authority (the Authority) provides supplemental information to the financial statements and notes that follow and should be read in conjunction with them. The purpose of the MD&A is to introduce and highlight the more detailed information provided in the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

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 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. Usually these activities are financed by debt that is secured solely by a pledge of the operating revenues of that activity.

Financial Statements

The Authority's financial statements consist of a balance sheet, a statement of revenues, expenses and changes in fund net assets, and a statement of cash flows. The financial statements utilize the economic resources measurement focus and the accrual basis of accounting - thus providing the foundation for generally accepted accounting principles that are used in private sector business reporting. This means that all assets and liabilities associated with the operation of the Authority are included on the balance sheet, and that revenues and expenses are recognized when earned and incurred, respectively, on the statement of revenues, expenses and changes in fund net assets.

Net assets are presented in two components, (i) restricted and (ii) unrestricted. Net assets are reported as restricted when constraints are placed on those assets by creditors, grantors or laws, or are imposed by law through constitutional provisions or enabling legislation. The restrictions in place at the Authority originate from its bond resolutions. The Board has designated a portion of unrestricted funds as discussed in Note 5.

The statement of revenues, expenses and changes in fund net assets reports the operating revenues and expenses of the Authority for the fiscal year with the difference representing the change in net assets for the year.

The statement of cash flows reports cash activities for the fiscal year resulting from operating and investing activities and reconciles the beginning of the year cash balance with the cash balance at the end of the year.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Notes to the Financial Statements

The notes to the financial statements provide additional information that is important to understanding the information included in the financial statements.

Supplemental Information

Supplemental information includes combining balance sheets and statements of revenues, expenses and changes in fund net assets.

OVERVIEW OF THE ORGANIZATION

The Authority is a public instrumentality and political subdivision of the State of Connecticut (the State). The Authority 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. The Authority 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 Authority bonds. Public Act 12-149, effective July 1, 2012, statutorily consolidated the Authority with the Connecticut Health and Educational Facilities Authority (CHEFA) by making the Authority a subsidiary of CHEFA.

FINANCIAL HIGHLIGHTS

The assets of the Authority exceeded its liabilities as of June 30, 2012 and 2011, by \$14 million and \$12.8 million, respectively.

The Authority's net assets increased by \$1,459,133 and decreased by \$311,483 for the years ended June 30, 2012 and 2011, respectively.

The Authority's total outstanding bonds decreased by \$18.2 million and increased by \$28.6 million for the years ended June 30, 2012 and 2011, respectively.

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

FINANCIAL POSITION ANALYSIS

The following is a summary of the Authority's assets, liabilities and net assets at June 30, 2012, 2011 and 2010:

**BALANCE SHEETS
(In Thousands)**

	June 30,		
	2012	2011	2010
Assets:			
Current unrestricted assets	\$ 19,650	\$ 18,197	\$ 15,514
Current restricted assets	39,133	58,108	34,343
Total current assets	<u>58,783</u>	<u>76,305</u>	<u>49,857</u>
Noncurrent assets:			
Restricted investments	19,540	19,160	15,618
Loans receivable, net of current portion	103,824	104,349	106,719
Bond issuance costs, net	2,592	2,848	2,575
Total noncurrent assets	<u>125,956</u>	<u>126,357</u>	<u>124,912</u>
Total Assets	<u>\$ 184,739</u>	<u>\$ 202,662</u>	<u>\$ 174,769</u>
Liabilities:			
Current liabilities	\$ 12,632	\$ 10,163	\$ 11,418
Long-term liabilities	157,806	179,657	150,198
Total liabilities	<u>170,438</u>	<u>189,820</u>	<u>161,616</u>
Net assets:			
Unrestricted	(5,895)	(6,655)	(2,187)
Restricted	20,196	19,497	15,340
Total net assets	<u>14,301</u>	<u>12,842</u>	<u>13,153</u>
Total Liabilities and Net Assets	<u>\$ 184,739</u>	<u>\$ 202,662</u>	<u>\$ 174,769</u>

The following is an overview of significant changes in the balance sheets from FY2011 to FY2012 and from FY2010 to 2011:

Assets

From FY2011 to FY2012, current unrestricted assets increased by \$1.5 million or 8.7%. This was primarily due to an increase in current loans receivable in FY2012. From FY2010 to FY2011, current unrestricted assets increased by \$1.1 million for the same reason.

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

FINANCIAL POSITION ANALYSIS (Continued)

From FY2011 to FY2012, current restricted assets decreased by \$19 million or 31.8%. This decrease was the result of the repayment and redemption of bonded debt. From FY2010 to FY2011, current restricted assets increased by \$25.4 million or 73.9% representing proceeds of bonds issued October 18, 2010.

From FY2011 to FY2012, noncurrent assets decreased by \$.4 million or .3%, primarily due to the amortization of bond issuance costs. From FY2010 to FY2011, noncurrent assets increased by \$1.4 million or 1.2%, primarily due to the additional investment required under the 2010 Special Capital Reserve Fund.

Liabilities

From FY2011 to FY2012, current liabilities increased by \$2.5 million or 24.3% due to an increase in current bonds payable from bonds issued in FY2012. From FY2010 to FY2011, current liabilities decreased by \$1.3 million or 11.0% due to a decrease in current portion of bonds payable from new bonds issued in FY2010 and FY2011.

From FY2011 to FY2012, long-term liabilities decreased by \$21.9 million or 12.1% due to the refunding of debt in FY2012 and the elimination of the arbitrage rebate and excess loan liability from FY2011. The elimination of the arbitrage rebate and excess loan liability FY2012 resulted from lowering student loan interest rates in the past and payment to the U.S. Treasury of the liabilities associated with the 1998 and 2006 bonds. From FY2010 to FY2011, long-term liabilities increased by \$29.5 million or 19.6% due to the issuance of \$45 million of bonds in FY2011, net of maturities and redemptions.

Net Assets

Unrestricted net assets increased from FY2011 to FY2012 due to an increase in net assets from operations of \$1,459,000. Restricted net assets increased by \$698,000 due to additional deposits in restricted accounts.

Unrestricted net assets decreased from FY2010 to FY2011 due to a decrease in net assets of \$311,000 from operations and the additional reserve requirements of \$4.2 million relating to the FY2011 bond issuance. The additional reserve requirements caused restricted net assets to increase from FY2010 to FY2011 by the same amount.

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

REVENUE AND EXPENSE ANALYSIS

The following is a summary of the Authority's operating revenues, operating expenses and changes in net assets for the years ended June 30, 2012, 2011 and 2010:

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (In Thousands)			
Fiscal Years Ended June 30,			
	2012	2011	2010
Operating revenues:			
Interest income - loans receivable	\$ 7,860	\$ 7,960	\$ 7,879
Investment income	2,622	968	1,490
Total operating revenues	10,482	8,928	9,369
Operating expenses:			
Interest expense	7,650	7,997	7,320
Loan collection fees	493	477	478
Amortization of bond issuance costs	627	475	467
General and administrative and related expenses	819	674	683
Arbitrage rebate and excess loan yield provision (benefit)	(566)	(384)	1,224
Total operating expenses	9,023	9,239	10,172
Change in Net Assets	\$ 1,459	\$ (311)	\$ (803)

Revenues

From FY2010 to FY2011, and FY2011 to FY2012, interest income on loans remained stable as the total outstanding loans remained consistent.

From FY2011 to FY2012, investment income increased by \$1.7 million. This was due to investment gains in FY2012 of \$1.4 million as compared to a loss of \$309,000 in FY2011.

From FY2010 to FY2011, investment income decreased by \$522,000 or 35% due to a decrease in the amount invested, which resulted from the use of FY2010 bond proceeds to make loans.

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

REVENUE AND EXPENSE ANALYSIS (Continued)

Expenses

Interest expense was consistent from FY2011 to FY2012 and increased by \$677,000 or 9% from FY2010 to FY2011 due to a higher balance of bonds payable as bonds were issued in FY2011.

Loan collection fees were consistent over the three-year period from FY2010 to FY2012.

Amortization of bond issuance costs increased by \$152,000 from FY2011 to FY2012 as a result of the write-off of bond issuance costs in 2012 due to the 2012 bond refunding. Amortization of bond issuance costs was stable from FY2010 to FY2011.

General and administrative expenses increased from FY2011 to FY2012 by \$144,000 or 21.4% due to a credit to the loan loss provision in FY2012. General and administrative expenses remained stable from FY2010 to FY2011.

From FY2011 to FY2012, the arbitrage rebate and excess loan yield provision (benefit) increased by \$181,000 or 47.2% due to loan prepayments and reducing the interest rate on certain loans held under the 1990 and 2003 Resolution as described in Note 10. From FY2010 to FY2011, the arbitrage rebate and excess loan yield provision decreased by \$1.6 million or 130% due to the Authority reducing the interest rate on certain loans held under the 1990 and 2003 Resolution as described in Note 10.

FINANCIAL STATEMENTS

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
BALANCE SHEETS
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>		<u>2012</u>	<u>2011</u>
ASSETS					
Current Assets					
Unrestricted assets:					
Cash and cash equivalents	\$ 2,694,362	\$ 2,574,188			
Current portion of loans receivable, net of allowances for loan losses of \$2,421,245 in 2012 and \$2,241,000 in 2011	16,341,157	14,986,013			
Interest receivable on investments	148,406	179,421			
Interest receivable on loans receivable	466,249	457,542			
Total unrestricted assets	<u>19,650,174</u>	<u>18,197,164</u>			
Restricted assets:					
Cash and cash equivalents	34,674,415	49,971,290			
Investments	4,457,294	8,134,532			
Connecticut Higher Education Trust	1,763	1,727			
Total restricted assets	<u>39,133,472</u>	<u>58,107,549</u>			
Total current assets	<u>58,783,646</u>	<u>76,304,713</u>			
Noncurrent Assets					
Restricted investments	19,539,535	19,159,603			
Loans receivable, net of current portion	103,823,964	104,349,438			
Bond issuance costs, net of accumulated amortization of \$3,290,295 in 2012 and \$4,214,710 in 2011	2,591,396	2,847,912			
Total noncurrent assets	<u>125,954,895</u>	<u>126,356,953</u>			
Total Assets	<u>\$ 184,738,541</u>	<u>\$ 202,661,666</u>			
LIABILITIES					
Current Liabilities					
Current portion of bonds payable	\$ 11,210,000	\$ 8,575,000			
Accounts payable and accrued expenses	102,146	122,954			
Accrued interest payable	866,113	1,011,923			
Current portion of deferred revenue	453,528	453,528			
Total current liabilities	<u>12,631,787</u>	<u>10,163,405</u>			
Noncurrent Liabilities					
Bonds payable, net of current portion	155,595,712	176,444,677			
Arbitrage rebate and excess loan yield liability		938,038			
Deferred revenue, net of current portion	2,210,068	2,273,705			
Total noncurrent liabilities	<u>157,805,780</u>	<u>179,656,420</u>			
Total liabilities	<u>170,437,567</u>	<u>189,819,825</u>			
NET ASSETS					
Unrestricted	(5,895,111)	(6,655,858)			
Restricted for debt service	20,196,085	19,497,699			
Total net assets	<u>14,300,974</u>	<u>12,841,841</u>			
Total Liabilities and Net Assets	<u>\$ 184,738,541</u>	<u>\$ 202,661,666</u>			

The accompanying notes are an integral part of the financial statements

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Operating Revenues		
Interest income on loans receivable	\$ 7,860,919	\$ 7,959,710
Investment income	2,621,809	968,155
Total operating revenues	<u>10,482,728</u>	<u>8,927,865</u>
Operating Expenses		
Interest expense	7,649,503	7,996,714
Loan collection fees	493,232	477,488
Amortization of bond issuance costs	627,176	474,692
General and administrative expenses	283,608	279,543
Provision for loan losses	180,245	47,000
Professional fees	170,420	147,280
Salaries	120,420	132,996
Trustee fees	64,500	67,750
Arbitrage rebate and excess loan yield benefit	(565,509)	(384,115)
Total operating expenses	<u>9,023,595</u>	<u>9,239,348</u>
Change in Net Assets	1,459,133	(311,483)
Net Assets - Beginning of Year	<u>12,841,841</u>	<u>13,153,324</u>
Net Assets - End of Year	<u>\$ 14,300,974</u>	<u>\$ 12,841,841</u>

The accompanying notes are an integral part of the financial statements

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Cash Flows from Operating Activities		
Receipts from loan repayments	\$ 18,751,161	\$ 16,892,091
Interest received on loans	7,788,575	8,480,029
Interest received on investments	1,287,057	1,252,943
Loans disbursed	(19,761,087)	(15,795,345)
Payment of bond interest	(7,781,636)	(7,858,375)
Payments to employees and suppliers	(1,152,988)	(1,056,374)
Other disbursements	(372,529)	(685,463)
Net cash provided by (used in) operating activities	<u>(1,241,447)</u>	<u>1,229,506</u>
Cash Flows from Investing Activities		
Sale of restricted investments	6,313,980	35,635,683
Purchase of restricted investments	(1,650,943)	(22,029,138)
Net cash provided by investing activities	<u>4,663,037</u>	<u>13,606,545</u>
Cash Flows from Noncapital Financing Activities		
Issuance of bonds	13,061,209	46,356,409
Bond issuance costs	(389,500)	(747,281)
Payments on bond principal	(31,270,000)	(17,785,000)
Net cash provided by (used in) noncapital financing activities	<u>(18,598,291)</u>	<u>27,824,128</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(15,176,701)	42,660,179
Cash and Cash Equivalents - Beginning of Year	<u>52,545,478</u>	<u>9,885,299</u>
Cash and Cash Equivalents - End of Year	<u>\$ 37,368,777</u>	<u>\$ 52,545,478</u>
Reconciliation of Cash and Cash Equivalents to the Statement of Net Assets		
Cash and cash equivalents - unrestricted	\$ 2,694,362	\$ 2,574,188
Cash and cash equivalents - restricted	<u>34,674,415</u>	<u>49,971,290</u>
	<u>\$ 37,368,777</u>	<u>\$ 52,545,478</u>

**CONNECTICUT HIGHER EDUCATION
SUPPLEMENTAL LOAN AUTHORITY
STATEMENTS OF CASH FLOWS (Continued)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
Reconciliation of Change in Net Assets to Net Cash Provided by (Used In) Operating Activities		
Change in net assets	\$ 1,459,133	\$ (311,483)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Amortization of bond issuance costs	456,897	474,692
Write off of bond issuance costs	189,119	-
Amortization of deferred amount on refunding	22,915	22,915
Amortization of bond discount	44,491	43,874
Amortization of bond premium	(72,580)	(56,756)
Provision for loan losses	180,245	47,000
Unrealized (gain) loss on treasury bond	(1,365,767)	309,075
Change in operating assets and liabilities:		
(Increase) decrease in loans receivable	(1,009,915)	1,096,746
(Increase) decrease in interest receivable on investments	31,015	(24,287)
(Increase) decrease in interest receivable on loans receivable	(8,707)	4,922
Increase (decrease) in accounts payable and accrued expenses	(20,808)	48,683
Increase (decrease) in accrued interest payable	(145,810)	128,306
Decrease in arbitrage rebate and excess loan yield liability	(938,038)	(389,977)
Decrease in deferred revenue	(63,637)	(164,204)
Total adjustments	<u>(2,700,580)</u>	<u>1,540,989</u>
Net Cash Provided by (Used In) Operating Activities	<u>\$ (1,241,447)</u>	<u>\$ 1,229,506</u>

The accompanying notes are an integral part of the financial statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Connecticut Higher Education Supplemental Loan Authority (the Authority) have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed in pronouncements of the Governmental Accounting Standards Board (GASB). Following is a summary of the reporting entity and significant accounting policies of the Authority.

Reporting Entity - The Authority is a body corporate and politic 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 (the State), 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 in financing the cost of higher education through its bond funds.

Consolidation - Public Act 12-149, effective July 1, 2012, statutorily consolidated the Authority with the Connecticut Health and Educational Facilities Authority (CHEFA) by making the Authority a subsidiary of CHEFA. As a subsidiary of CHEFA, the Authority retains its legal identity as a separate quasi-public authority, continues to be subject to suit and liability solely from its own assets, revenues and resources, and has no recourse to the general funds, revenues, resources or other assets of CHEFA or the State of Connecticut.

Measurement Focus and Basis of Accounting - 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 noncurrent) associated with the funds' activity are included on the funds' balance sheets. 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 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for services. Operating expenses for enterprise funds include the cost of providing services to customers. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. All of the Authority's revenues and expenses are considered operating.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Bond Funds - Under the Bond Funds, the Authority issues revenue bonds, the proceeds of which are used to provide loans directly to students or other borrowers to assist in the financing of higher education. Revenue in the Bond Funds is derived from interest earned on investments and loans receivable. The 2003 Bond Fund is governed by the 2003 Master Revenue Bond Resolution, pursuant to which the 2003 and 2005 Series A and B and 2006 and 2007 Series A bonds were issued. The 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 as well as the 2009, 2010 and 2012 Series A bonds. In accordance with the bond resolutions, the Authority internally accounts for each bond issue separately, which includes individual funds as defined by each bond resolution, including but not limited to combinations of some of the following: the Loan Fund, Revenue Fund, Debt Service Reserve Fund and Special Capital Reserve Fund.

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 GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures in the financial statements. A material estimate that is particularly susceptible to significant change relates to the determination of the allowance for loan losses. In determining the allowance for loan losses, management uses 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 nonperforming (see Note 3). Loans are currently considered nonperforming by management when the borrower has not made payments for the most recent three months.

Cash and Cash Equivalents - The Authority's cash and cash equivalents include cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

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 nonaccrual 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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

against the allowance for loan losses (net of loan recoveries) in the period in which the loans become nonperforming and no payments have been made for 12 consecutive months. However, a loan may be written off at any time management believes the repayment of such loan is doubtful. Collections of loans previously written off are pursued until management believes that further recoveries are doubtful.

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

Investments - The Authority presents all investments at fair value, except for nonparticipating interest-earning investment contracts, which are carried at amortized cost. There were no material differences between the amortized cost and fair values of investments as of June 30, 2012 and 2011.

Bond Issuance Costs - Bond issuance costs are amortized on a straight-line basis over the term of the related bonds.

Arbitrage Rebates and Excess Loan Yield Liability - 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 or reduce its excess loan yield on student loans financed with tax-exempt bonds. The Authority calculates this liability annually.

Deferred Revenue - The Authority charges a 3% reserve fee on loans governed by the 2003 Master Revenue Bond Resolution and a 2% to 4% reserve fee on loans governed by the 1990 Revenue Bond Resolution, depending on the originating series. The fee, net of origination costs, is deferred and recognized over the life of the loan on a straight-line basis.

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits - Deposit Custodial Credit Risk - Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits will not be returned. The Authority does not have a deposit policy for custodial credit risk. The deposit of public funds is controlled by Connecticut General Statutes. Deposits may be placed with any qualified public depository that has its main place of business in the State of Connecticut. Connecticut General Statutes require that each depository maintain segregated collateral (not required to be based on a security agreement between the depository and the municipality and, therefore, not perfected in accordance with federal law) in an amount equal to a defined percentage of its public deposits based upon the depository's risk based capital ratio.

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Based on the criteria described in GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, none of the Authority's bank balance of \$40,056 was exposed to custodial credit risk.

Cash Equivalents - At June 30, 2012, the Authority's cash equivalents amounted to \$36,946,232, consisting of the State Short-Term Investment Fund (STIF), which has a credit rating of AAAM by Standard & Poor's. STIF investments are redeemable on demand.

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

As of June 30, 2012, the Authority had the following investments:

<u>Investment Type</u>	<u>Credit Rating</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
FGIC Investment Agreement	A1/AA+	\$ 908,832	\$ 908,832	\$	
FSA Capital Management Services Investment Agreement	Aa3/AA-	5,300,000			5,300,000
GE Funding Capital Market Guaranteed Investment Contract	A1/AA+	2,200,000		2,200,000	
Ixis Funding Corp Agreement	A2/A	1,334,170		1,334,170	
MBIA Inc. Investment Agreement	B3/B	3,000,000		3,000,000	
Rabobank International Investment	Aa2/AA	2,190,763		2,190,763	
Smith Barney Investment Agreement	Baa2/A-	600,000		600,000	
Societe General Investment	A2/A	623,529		623,529	
US Treasury Bond	Aaa/AA+	7,839,535			7,839,535
Total Investments - June 30, 2012		<u>\$ 23,996,829</u>			

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

As of June 30, 2011, the Authority had the following investments:

<u>Investment Type</u>	<u>Credit Rating *</u>	<u>Fair Value</u>	<u>Investment Maturities (Years)</u>		
			<u>Less Than 1</u>	<u>1-10</u>	<u>More Than 10</u>
FGIC Investment Agreement	N/A	\$ 1,558,635	\$ 1,558,635	\$	
FSA Capital Management Services Investment Agreement	N/A	5,300,000			5,300,000
GE Funding Capital Market Guaranteed Investment Contract	N/A	2,200,000		2,200,000	
Ixis Funding Corp Agreement	N/A	1,688,110			1,668,110
MBIA Inc. Investment Agreement	N/A	3,000,000			3,000,000
Rabobank International Investment	N/A	1,858,340		1,858,340	
RBC Investment Agreement Deal	N/A	992,726		992,726	
Smith Barney Investment Agreement	N/A	600,000		600,000	
Societe General Investment	N/A	3,536,721		3,536,721	
US Treasury Bond	AAA	<u>6,559,603</u>			6,559,603
Total Investments - June 30, 2011		<u>\$ 27,294,135</u>			

* N/A - Not available

There were no significant investment losses for the years ended June 30, 2012 and 2011.

Interest Rate Risk - The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The Authority's deposit and investment policy complies with the underlying bond resolution requirements as described above.

Credit Risk - Investments - The Authority applies Connecticut statutes with respect to credit risk policies.

Concentration of Credit Risk - The Authority does not have a formalized investment policy that restricts investment in any one issuer that is in excess of 5% of the Authority's total investments. The Authority's deposit and investment policy complies with the underlying bond resolution requirements as described above.

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Custodial Credit Risk - Custodial credit risk for an investment is the risk that, in the event of the failure of the counterparty (the institution that pledges collateral or repurchase agreement securities to the Authority or that sells investments to or buys them for the Authority), the Authority will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Authority does not have a policy for custodial credit risk, as the Authority's deposit and investment and investment policy complies with the underlying bond resolution requirements as described above. As of June 30, 2012, the Authority was not subject to custodial risk because it did not have any uninsured and unregistered securities held by the counterparty or by its trust department or agent that were not in the Authority's name.

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, 2012 are as follows:

<u>Bond Series</u>	<u>Number of Loans in 2012</u>	<u>Balance at June 30, 2012</u>	<u>Balance at June 30, 2011</u>	<u>Interest Rate (%)</u>
1998A&B	432	\$ 903,432	\$ 1,702,202	2.00
1999A			1,907,152	7.50
1999B			557,263	7.50
2000A	540	2,517,896	3,338,911	7.25
2000B	187	723,773	1,021,482	7.25
2001A*			7,163,225	6.7 and 9.7
2003A	813	6,365,339	7,714,403	4.99
2003B**	473	2,926,339	3,616,211	4.99 and 9.2
2005A&B***	1,409	15,306,083	18,251,024	5.5, 8.25, and 8.4
2006A****	1,543	16,771,668	19,989,788	0 and 6.1
2007A	2,065	27,322,791	31,070,144	6.99
2009A	1,521	20,626,494	22,317,559	6.80
2010A	1,236	18,878,555	221,975	5.95
2012A*****	1,354	7,527,653		7.5, 4.85, and 9.7
	<u>11,573</u>	<u>119,870,023</u>	<u>118,871,339</u>	
Add nonperforming loans		2,716,343	2,705,112	
Less allowance for loan losses		<u>(2,421,245)</u>	<u>(2,241,000)</u>	
		<u>\$ 120,165,121</u>	<u>\$ 119,335,451</u>	

* Includes loans issued under the 1990 Series A bonds that were refunded by the 2001 Series A bonds.

** Includes loans issued under the 1991 Series A bonds that were refunded by the 2003 Series B bonds.

*** Includes loans issued under the 1993 and 1994 Series A bonds that were refunded by the 2005 Series B bonds.

**** Includes loans issued under the 1996 Series A bonds that were refunded by the 2006 Series A bonds.

***** Includes loans issued under the 1999 and 2001 Series A bonds that were refunded by the 2012 Series A bonds.

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

NOTE 3 - LOANS RECEIVABLE (Continued)

The Authority currently defines nonperforming loans as those on which the borrower has not made payments for the most recent three months. Interest income of approximately \$140,000 and \$154,000 for the years ended June 30, 2012 and 2011, respectively, was not accrued on nonperforming loans.

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 \$565,860 and \$250,817 for the years ended June 30, 2012 and 2011, respectively, which had previously been provided for through the allowance for loan losses. The Authority recovered \$152,086 and \$241,866 in fiscal year 2012 and 2011, respectively, in loans receivable and other credits that were written off in previous years.

NOTE 4 - LONG-TERM DEBT

The following is a summary of changes in long-term debt for the years ended June 30, 2012 and 2011:

2012	<u>Balance at July 1, 2011</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>	<u>Due Within One Year</u>
Bonds payable - principal	\$ 184,250,000	\$ 13,085,000	\$ 31,270,000	\$ 166,065,000	\$ 11,210,000
Discount	(528,722)	(23,791)	(44,491)	(508,022)	
Premium	1,433,957		72,580	1,361,377	
Deferred amount on refunding	(135,558)		(22,915)	(112,643)	
Bonds, net	<u>185,019,677</u>	<u>13,061,209</u>	<u>31,275,174</u>	<u>166,805,712</u>	<u>11,210,000</u>
Arbitrage rebate and excess loan yield liability	938,038		938,038	-	
Deferred revenue	<u>2,727,233</u>	<u>406,228</u>	<u>469,865</u>	<u>2,663,596</u>	<u>453,528</u>
	<u>\$ 188,684,948</u>	<u>\$ 13,467,437</u>	<u>\$ 32,683,077</u>	<u>\$ 169,469,308</u>	<u>\$ 11,663,528</u>
2011	<u>Balance at July 1, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2011</u>	<u>Due Within One Year</u>
Bonds payable - principal	\$ 157,035,000	\$ 45,000,000	\$ 17,785,000	\$ 184,250,000	\$ 8,575,000
Discount	(572,596)		(43,874)	(528,722)	
Premium	134,304	1,356,409	56,756	1,433,957	
Deferred amount on refunding	(158,473)		(22,915)	(135,558)	
Bonds, net	<u>156,438,235</u>	<u>46,356,409</u>	<u>17,774,967</u>	<u>185,019,677</u>	<u>8,575,000</u>
Arbitrage rebate and excess loan yield liability	1,328,015		389,977	938,038	
Deferred revenue	<u>2,891,437</u>	<u>305,414</u>	<u>469,618</u>	<u>2,727,233</u>	<u>453,528</u>
	<u>\$ 160,657,687</u>	<u>\$ 46,661,823</u>	<u>\$ 18,634,562</u>	<u>\$ 188,684,948</u>	<u>\$ 9,028,528</u>

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

NOTE 4 - LONG-TERM DEBT (Continued)

The bonds of the Authority bear interest at rates varying between 1.7% and 6%. Future amounts needed to pay principal and interest on bonds outstanding at June 30, 2012 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 11,210,000	\$ 6,662,860
2014	11,285,000	6,244,418
2015	12,250,000	5,848,855
2016	12,080,000	5,378,819
2017	13,380,000	4,818,409
2018-2022	57,605,000	16,849,516
2023-2027	29,225,000	6,793,278
2028-2032	12,390,000	3,325,904
2033-2036	6,640,000	1,265,863
	<u>\$ 166,065,000</u>	<u>\$ 57,187,922</u>

Outstanding principal of each bond issue at June 30, 2012 and 2011, is as follows:

	<u>Original Amount</u>	<u>Outstanding June 30, 2012</u>	<u>Outstanding June 30, 2011</u>
1998 Series A, 4.10%-5.15%, due serially from November 15, 2002 to November 15, 2016	\$ 15,000,000	\$	\$ 785,000
1999 Series A, 4.7%-6%, due serially from November 15, 2002 to November 15, 2017	12,500,000		1,695,000
1999 Series B, 4.5%-6%, due serially from November 15, 2002 to November 15, 2012	4,390,000	540,000	540,000
2000 Series A, 4.625%-5.5%, due serially from November 15, 2008 to November 15, 2020	16,410,000		2,565,000
2000 Series B, 4.75%-5.2%, due serially from November 15, 2001 to November 15, 2012	5,975,000	895,000	895,000
2001 Series A, 4.25%-5.25%, due serially from November 15, 2010 to November 15, 2021	25,000,000		13,720,000
2003 Series A, 1.7%-4.5%, due serially from November 15, 2004 to November 15, 2020	18,000,000	7,665,000	9,200,000
2003 Series B, 2%-5%, due serially from November 15, 2004 to November 15, 2017	12,915,000	5,855,000	5,855,000
2005 Series A, 2.5%-4.375%, due serially from November 15, 2005 to November 15, 2021	31,455,000	17,065,000	19,875,000
2006 Series A, 3.9%-4.8%, due serially from November 15, 2007 to 2022	33,270,000	18,810,000	22,010,000
2007 Series A, 4.125%-1.875%, due serially from November 15, 2010 to 2024	41,000,000	32,355,000	35,525,000
2009 Series A, 1.9%-5.05%, due serially from November 15, 2011 to 2027	30,000,000	24,795,000	26,585,000
2010 Series A, 2.0%-5.25%, due serially from November 15, 2014 to 2035	45,000,000	45,000,000	45,000,000
2012 Series A, 0.4%-3.125%, due serially from November 15, 2012 to 2021	13,085,000	13,085,000	
	<u>\$ 304,000,000</u>	<u>\$ 166,065,000</u>	<u>\$ 184,250,000</u>

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

NOTE 4 - LONG-TERM DEBT (Continued)

Each Series A bond is subject to a special mandatory redemption in whole or in part from excess loan payments. During the years ended June 30, 2012 and 2011, the Authority redeemed bonds in the following amounts:

	2012	2011
1998 Series A	\$ 560,000	\$
2000 Series A	2,295,000	
2003 Series A		270,000
2005 Series A	645,000	180,000
2006 Series A	1,340,000	1,280,000
2007 Series A	2,500,000	2,645,000
2009 Series A	990,000	3,415,000
	\$ 8,330,000	\$ 7,790,000

Refunding - On March 28, 2012, the Authority issued \$13,085,000 of revenue refunding bonds with interest rates ranging from .4% to 3.125% to currently refund the outstanding principal amounts of \$1,245,000 revenue bonds, dated October 15, 1999 and \$11,585,000 revenue bonds, dated November 15, 2001.

The net proceeds of \$13,119,252 (including a discount of \$23,791, debt service contributions of \$458,940, and issuance costs of \$389,500 including underwriter's fees) will reduce total debt service payments over the next 10 years by \$1,271,409 and represents an economic gain (difference between present values of the debt service payments on the old and new debt) of \$804,005.

NOTE 5 - NET ASSETS

Restricted net assets consist of \$20,196,085 and \$19,497,699 as of June 30, 2012 and 2011, respectively, required by the bond indentures to be maintained in the Special Capital Reserve Funds.

The Board of Directors designated unrestricted net assets of \$1,600,000 as of June 30, 2012 and 2011, to be used to maintain future operations required to monitor and administer the loan portfolio in the event the Authority ceases to issue new loans.

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

NOTE 6 - STATE OF CONNECTICUT DEPOSIT REQUIREMENT

Deficiencies, if any, in the Debt Service 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 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. As of June 30, 2012 and 2011, the State has not made nor was it required to make any such deposit.

NOTE 7 - RELATED PARTY TRANSACTIONS

The Authority shares rental space, office supplies, office equipment and utilities with the Connecticut Conference of Independent Colleges (CCIC) and shares the services of the CCIC's president. Currently, the executive director of the Authority serves as president of CCIC. Fees charged to the Authority by CCIC for providing administrative services were \$106,000 for each of the years ended June 30, 2012 and 2011. In addition, the Authority reimbursed CCIC directly for specific general and administrative expenses incurred.

NOTE 8 - EMPLOYEE BENEFIT PLANS

The Authority has a Simplified Employee Pension Plan (the Plan). The Plan was established by the Board of Directors, who also have the authority to amend the Plan's provisions. Under the provisions of the Plan, the Authority makes annual contributions directly to the individual retirement accounts (IRA) of all eligible employees, equal to 8% 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 2012 and 2011, the Authority made contributions of \$6,960 and \$10,574, respectively, to the Plan.

NOTE 9 - RISK MANAGEMENT

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

NOTE 10 - ARBITRAGE AND EXCESS LOAN YIELD LIABILITIES

The arbitrage and excess loan yield liabilities of \$938,038 as of June 30, 2011 were reduced to zero as of June 30, 2012 through payment to the U. S. Treasury of amounts due and through the reduction of interest charged on outstanding loans.

SUPPLEMENTAL INFORMATION

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS
JUNE 30, 2012 AND 2011

	2012				2011			
	Authority Operating Fund	Bond Funds		Total	Authority Operating Fund	Bond Funds		Total
		Pre 2003	2003			Pre 2003	2003	
ASSETS								
Current Assets								
Unrestricted assets:								
Cash and cash equivalents	\$ 2,694,362			\$ 2,694,362	\$ 2,574,188			\$ 2,574,188
Current portion of loans receivable, net of allowances for loan losses of \$2,421,245 in 2012 and \$2,241,000 in 2011		6,964,803	9,376,354	16,341,157		4,815,054	10,170,959	14,986,013
Interest receivable on investments	257	64,410	83,739	148,406	447	97,738	81,236	179,421
Interest receivable on loans receivable		215,933	250,316	466,249		159,929	297,613	457,542
Total unrestricted assets	<u>2,694,619</u>	<u>7,245,146</u>	<u>9,710,409</u>	<u>19,650,174</u>	<u>2,574,635</u>	<u>5,072,721</u>	<u>10,549,808</u>	<u>18,197,164</u>
Restricted assets:								
Cash and cash equivalents		26,281,758	8,392,657	34,674,415		42,497,082	7,474,208	49,971,290
Investments		2,266,531	2,190,763	4,457,294		6,276,192	1,858,340	8,134,532
Connecticut Higher Education Trust	1,763			1,763	1,727			1,727
Total restricted assets	<u>1,763</u>	<u>28,548,289</u>	<u>10,583,420</u>	<u>39,133,472</u>	<u>1,727</u>	<u>48,773,274</u>	<u>9,332,548</u>	<u>58,107,549</u>
Total current assets	<u>2,696,382</u>	<u>35,793,435</u>	<u>20,293,829</u>	<u>58,783,646</u>	<u>2,576,362</u>	<u>53,845,995</u>	<u>19,882,356</u>	<u>76,304,713</u>
Noncurrent Assets								
Restricted investments		9,039,535	10,500,000	19,539,535		8,659,603	10,500,000	19,159,603
Loans receivable, net of current portion		44,019,963	59,804,001	103,823,964		33,530,078	70,819,360	104,349,438
Bond issuance costs, net of accumulated amortization of \$3,290,295 in 2012 and \$4,124,710 in 2011	1,133,796	893,077	564,523	2,591,396	1,388,512	770,497	688,903	2,847,912
Total noncurrent assets	<u>1,133,796</u>	<u>53,952,575</u>	<u>70,868,524</u>	<u>125,954,895</u>	<u>1,388,512</u>	<u>42,960,178</u>	<u>82,008,263</u>	<u>126,356,953</u>
Total Assets	<u>\$ 3,830,178</u>	<u>\$ 89,746,010</u>	<u>\$ 91,162,353</u>	<u>\$ 184,738,541</u>	<u>\$ 3,964,874</u>	<u>\$ 96,806,173</u>	<u>\$ 101,890,619</u>	<u>\$ 202,661,666</u>

(Continued on next page)

**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING BALANCE SHEETS (CONTINUED)
JUNE 30, 2012 AND 2011**

	2012				2011			
	Authority Operating Fund	Bond Funds		Total	Authority Operating Fund	Bond Funds		Total
		Pre 2003	2003			Pre 2003	2003	
LIABILITIES								
Current Liabilities								
Current portion of bonds payable	\$	\$ 3,980,000	\$ 7,230,000	\$ 11,210,000	\$	\$ 3,880,000	\$ 4,695,000	\$ 8,575,000
Accounts payable and accrued liabilities	3,099	56,806	42,241	102,146	1,727	81,547	39,680	122,954
Accrued interest payable		403,351	462,762	866,113		491,486	520,437	1,011,923
Current portion of deferred revenue		202,396	251,132	453,528		202,396	251,132	453,528
Total current liabilities	<u>3,099</u>	<u>4,642,553</u>	<u>7,986,135</u>	<u>12,631,787</u>	<u>1,727</u>	<u>4,655,429</u>	<u>5,506,249</u>	<u>10,163,405</u>
Noncurrent Liabilities								
Bonds payable, net of current portion		81,575,547	74,020,165	155,595,712		89,222,977	87,221,700	176,444,677
Arbitrage rebate and excess loan yield liability				-		415,911	522,127	938,038
Deferred revenue, net of current portion		933,407	1,276,661	2,210,068		745,912	1,527,793	2,273,705
Total noncurrent liabilities	<u>-</u>	<u>82,508,954</u>	<u>75,296,826</u>	<u>157,805,780</u>	<u>-</u>	<u>90,384,800</u>	<u>89,271,620</u>	<u>179,656,420</u>
Total liabilities	<u>3,099</u>	<u>87,151,507</u>	<u>83,282,961</u>	<u>170,437,567</u>	<u>1,727</u>	<u>95,040,229</u>	<u>94,777,869</u>	<u>189,819,825</u>
NET ASSETS								
Unrestricted	3,827,079	(7,101,582)	(2,620,608)	(5,895,111)	3,963,147	(7,231,755)	(3,387,250)	(6,655,858)
Restricted for debt service		9,696,085	10,500,000	20,196,085		8,997,699	10,500,000	19,497,699
Total net assets	<u>3,827,079</u>	<u>2,594,503</u>	<u>7,879,392</u>	<u>14,300,974</u>	<u>3,963,147</u>	<u>1,765,944</u>	<u>7,112,750</u>	<u>12,841,841</u>
Total Liabilities and Net Assets	<u>\$ 3,830,178</u>	<u>\$ 89,746,010</u>	<u>\$ 91,162,353</u>	<u>\$ 184,738,541</u>	<u>\$ 3,964,874</u>	<u>\$ 96,806,173</u>	<u>\$ 101,890,619</u>	<u>\$ 202,661,666</u>

**CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011**

	2012					2011						
	Authority Operating Fund	Bond Funds		Eliminations	Total	Authority Operating Fund	Bond Funds		Eliminations	Total		
		Pre 2003	2003				Pre 2003	2003				
Operating Revenues												
Interest income on loans receivable	\$	\$ 3,259,466	\$ 4,601,453	\$	\$ 7,860,919	\$	\$ 2,372,740	\$ 5,586,970	\$	\$ 7,959,710		
Investment income		5,312	2,016,504	599,993	2,621,809		5,994	358,805	603,356	968,155		
Administrative fees		793,577		(793,577)	-		984,540		(984,540)	-		
Total operating revenues		798,889	5,275,970	5,201,446	(793,577)	10,482,728		990,534	2,731,545	6,190,326	(984,540)	8,927,865
Operating Expenses												
Interest expense			3,704,992	3,944,511		7,649,503		3,560,304	4,436,410		7,996,714	
Loan collection fees		115	217,063	276,054	493,232		184	220,882	256,422		477,488	
Amortization of bond issuance costs (1)		392,742	110,054	124,380	627,176		268,401	64,843	141,448		474,692	
General and administrative expenses		251,260	27,523	4,825	283,608		249,536	18,892	11,115		279,543	
Provision for loan losses (benefit)			258,023	(77,778)	180,245			106,000	(59,000)		47,000	
Professional fees		170,420			170,420		147,280				147,280	
Salaries		120,420			120,420		132,996				132,996	
Trustee fees			42,011	22,489	64,500			37,350	30,400		67,750	
Administrative fees			131,127	662,450	(793,577)	-		222,630	761,910	(984,540)	-	
Arbitrage rebate and excess loan yield benefit			(43,382)	(522,127)	(565,509)			(70,278)	(313,837)		(384,115)	
Total operating expenses		934,957	4,447,411	4,434,804	(793,577)	9,023,595		798,397	4,160,623	5,264,868	(984,540)	9,239,348
Change in Net Assets		(136,068)	828,559	766,642	-	1,459,133		192,137	(1,429,078)	925,458	-	(311,483)
Net Assets - Beginning of Year		3,963,147	1,765,944	7,112,750	-	12,841,841		3,771,010	3,195,022	6,187,292	-	13,153,324
Net Assets - End of Year	\$	3,827,079	\$ 2,594,503	\$ 7,879,392	\$ -	\$ 14,300,974	\$	3,963,147	\$ 1,765,944	\$ 7,112,750	\$ -	\$ 12,841,841

(1) Includes the write-off of \$170,279 of bond issuance costs in connection with the 2012 bond refunding.



Accounting | Tax | Business Consulting

**Independent Auditors' 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
Connecticut Higher Education Supplemental Loan Authority
Hartford, Connecticut

We have audited the accompanying financial statements of the Connecticut Higher Education Supplemental Loan Authority (the Authority), a component unit of the State of Connecticut, as of and for the year ended June 30, 2012 and have issued our report thereon dated September 11, 2012. 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

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's 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 financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, the State of Connecticut, bond trustees and bond holders, and is not intended to be and should not be used by anyone other than these specified parties.

Blum, Shapiro & Company, P.C.

September 11, 2012



Exhibit B - Loans Disbursed by Bond Series

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY - HISTORICAL LENDING (06/12)

Institution	[1990 Resolution] Pre-2003 Series AB		[2003 Resolution] 2003 Series A		[2003 Resolution] 2003 Series B		[2003 Resolution] 2005 Series A		[2003 Resolution] 2006 Series A		[2003 Resolution] 2007 Series A		[1990 Resolution] 2009 Series A		[1990 Resolution] 2010 Series A		Total Number Of Students	Total Distribution to Students
	Number of Loans	Amount of	Number of 4.99% Loans	Amount of 4.99% Loans	Number of 4.99% Loans	Amount of 4.99% Loans	Number of 5.50% Loans	Amount of 5.50% Loans	Number of 6.15% Loans	Amount of 6.15% Loans	Number of 6.99% Loans	Amount of 6.99% Loans	Number of 6.80% Loans	Amount of 6.80% Loans	Number of 5.95% Loans	Amount of 5.95% Loans		
	Disb. (1)	Disb. (1)	Disb. (2)	Disb. (2)	Disb. (3)	Disb. (3)	Disb. (4)	Disb. (4)	Disb. (5)	Disb. (5)	Disb. (6)	Disb. (6)	Disb. (7)	Disb. (7)	Disb. (8)	Disb. (8)		
Albertus Magnus College	222	\$1,560,074	4	\$35,551	4	\$44,692	10	\$123,675	11	\$138,406	42	\$252,345	25	\$145,068	10	\$63,074	328	\$2,362,885
ARC - Alt. Route to Cert. (CT DHE)	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	14	\$55,856	15	\$56,045	29	\$111,901
Capital Community College	1	\$3,500	3	\$12,000	0	\$0	2	\$10,544	2	\$27,000	0	\$0	0	\$0	0	\$0	8	\$53,044
Charter Oak State College	10	\$34,425	0	\$0	0	\$0	2	\$18,250	0	\$0	0	\$0	2	\$12,400	14	\$65,075	14	\$65,075
Central Connecticut State University	399	\$2,052,575	43	\$377,306	18	\$130,244	76	\$679,672	105	\$679,277	126	\$585,488	47	\$199,029	40	\$209,081	854	\$4,912,672
Connecticut College	310	\$3,334,887	1	\$24,000	3	\$35,284	5	\$86,404	0	\$0	7	\$50,534	0	\$0	0	\$0	326	\$3,531,109
Eastern Connecticut State University	439	\$2,246,962	38	\$258,930	30	\$204,808	46	\$435,874	82	\$439,968	134	\$679,879	82	\$403,271	83	\$447,755	934	\$5,117,447
Fairfield University	1,323	\$14,016,580	55	\$789,554	35	\$381,285	81	\$1,471,856	123	\$1,504,909	191	\$2,152,537	128	\$1,392,082	74	\$748,436	2,010	\$22,457,238
Gateway Community College	3	\$8,725	0	\$0	0	\$0	0	\$0	1	\$4,000	0	\$0	1	\$6,000	0	\$0	5	\$18,725
Goodwin College, Inc.	0	\$0	0	\$0	0	\$0	0	\$0	2	\$13,285	1	\$5,000	2	\$12,250	7	\$50,378	12	\$80,913
Graduate Institute	0	\$0	4	\$33,724	4	\$40,987	3	\$25,918	6	\$81,305	14	\$119,830	20	\$212,177	19	\$153,855	70	\$667,796
Hartford Seminary	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	2	\$8,000	0	\$0	1	\$10,500	3	\$18,500
Housatonic Community College	1	\$2,734	1	\$3,000	0	\$0	0	\$0	3	\$8,500	1	\$8,000	0	\$0	0	\$0	6	\$22,234
Rensselaer at Hartford	19	\$124,240	0	\$0	0	\$0	1	\$16,846	0	\$0	0	\$0	0	\$0	0	\$0	20	\$141,086
Lyme Academy of Fine Arts	3	\$27,574	1	\$11,815	0	\$0	4	\$39,438	3	\$17,224	13	\$89,765	11	\$76,060	9	\$41,700	44	\$303,576
Manchester Community College	5	\$16,743	0	\$0	2	\$7,000	0	\$0	0	\$0	0	\$0	0	\$0	1	\$2,000	8	\$25,743
Mitchell College	36	\$342,634	1	\$18,000	1	\$17,000	4	\$94,907	4	\$71,989	25	\$165,853	34	\$236,714	17	\$114,904	122	\$1,062,001
Naugatuck Valley Community College	8	\$21,000	0	\$0	0	\$0	0	\$0	2	\$4,000	0	\$0	0	\$0	2	\$4,000	12	\$29,000
Northwestern CT Community College	164	\$2,098,570	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	3	\$16,000	167	\$2,114,570
Quinnipiac University	1,410	\$12,560,536	102	\$1,431,915	79	\$1,100,584	305	\$5,223,158	365	\$4,727,215	485	\$5,081,973	205	\$2,089,088	227	\$2,595,894	3,178	\$34,810,363
Quinnipiac University School of Law	368	\$4,744,832	1	\$16,094	0	\$0	2	\$33,530	5	\$61,620	1	\$15,118	3	\$25,000	0	\$0	380	\$4,896,194
Sacred Heart University	1,406	\$13,201,359	290	\$4,259,532	140	\$1,875,224	379	\$6,657,012	296	\$5,172,170	675	\$6,856,582	377	\$3,641,049	282	\$3,183,192	3,845	\$44,846,119
Southern Connecticut State University	226	\$1,231,519	22	\$172,611	10	\$77,077	35	\$269,612	51	\$249,687	62	\$245,390	30	\$115,584	45	\$226,683	481	\$2,588,163
Saint Joseph College	429	\$3,139,887	16	\$133,927	13	\$118,697	21	\$256,595	28	\$203,379	56	\$395,704	45	\$279,097	34	\$264,839	642	\$4,792,125
Saint Vincent College	20	\$132,468	0	\$0	0	\$0	3	\$33,466	1	\$11,000	9	\$64,133	0	\$0	0	\$0	33	\$241,067
Teikyo Post University	77	\$493,191	6	\$37,296	5	\$44,300	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	88	\$574,787
Three Rivers Community College	11	\$133,200	1	\$6,386	2	\$7,000	0	\$0	1	\$2,000	3	\$11,000	2	\$8,400	1	\$1,000	21	\$168,986
Trinity College	225	\$2,371,706	4	\$18,760	0	\$0	7	\$85,745	5	\$32,790	21	\$159,209	11	\$134,000	11	\$142,255	284	\$2,944,465
Tunxis Community College	15	\$78,588	2	\$7,250	0	\$0	1	\$2,400	1	\$5,000	4	\$9,852	1	\$16,000	4	\$15,498	28	\$134,588
University of Bridgeport	206	\$1,469,031	3	\$28,154	1	\$5,700	2	\$29,886	0	\$0	4	\$19,200	14	\$104,530	7	\$33,032	237	\$1,689,533
University of Conn. - School of Law	17	\$106,462	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	17	\$106,462
University of Conn. - School of Social Work	24	\$129,219	1	\$4,500	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	25	\$133,719
University of Conn. - Dental/Health Center	89	\$654,242	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	89	\$654,242
University of Conn. - School of Medicine	45	\$309,457	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	45	\$309,457
University of Conn. - Storrs/Offsite Campuses	2,107	\$13,610,768	75	\$607,716	38	\$298,930	51	\$481,586	135	\$987,156	223	\$1,241,013	127	\$776,135	89	\$571,070	2,845	\$18,574,374
University of Hartford	1,971	\$19,430,253	165	\$2,259,133	133	\$1,521,191	292	\$4,571,895	388	\$3,846,396	580	\$4,836,951	307	\$2,505,849	99	\$883,399	3,935	\$39,855,067
University of New Haven	371	\$2,993,773	14	\$162,404	9	\$83,222	17	\$205,247	12	\$128,508	57	\$559,065	113	\$921,807	96	\$768,921	689	\$5,822,947
Wesleyan University	618	\$7,015,771	2	\$37,500	1	\$15,000	10	\$117,534	13	\$203,460	47	\$506,282	32	\$276,587	17	\$209,775	740	\$8,381,909
Western Connecticut State University	69	\$381,233	10	\$88,075	5	\$35,800	9	\$94,331	22	\$143,841	56	\$263,495	41	\$154,426	18	\$70,355	230	\$1,231,556
Wilcox College of Nursing	153	\$2,653,678	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	153	\$2,653,678
Yale University - College	1,460	\$18,796,969	98	\$1,707,670	58	\$897,141	131	\$2,292,272	175	\$2,613,232	346	\$3,933,971	110	\$1,221,961	97	\$1,117,374	2,475	\$32,580,590
Yale University - Graduate School	77	\$760,842	0	\$0	0	\$0	0	\$0	0	\$0	1	\$38,000	1	\$20,000	0	\$0	79	\$818,842
Yale University - School of Art	17	\$136,506	0	\$0	0	\$0	1	\$3,000	0	\$0	0	\$0	0	\$0	0	\$0	18	\$139,506
Yale University - School of Drama	4	\$19,235	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	4	\$19,235
Yale University - School of Forestry	6	\$64,650	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	6	\$64,650
Yale University - School of Law	281	\$3,101,938	1	\$4,700	0	\$0	0	\$0	0	\$0	3	\$86,600	0	\$0	0	\$0	285	\$3,193,238
Yale University - School of Medicine	138	\$1,108,608	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	29	\$415,596	0	\$0	167	\$1,524,204
Yale University - School of Nursing	111	\$856,349	2	\$31,300	1	\$3,586	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	114	\$891,235
Yale University - School of Management	325	\$3,181,976	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	0	\$0	325	\$3,181,976
Total Disbursed to Students-																		
Attending Connecticut Institutions	15,219	\$140,759,469	966	\$12,578,802	592	\$6,944,752	1,500	\$23,360,653	1,842	\$21,377,317	3,189	\$28,440,768	1,812	\$15,443,616	1,310	\$12,013,415	26,430	\$260,918,791
10.98% Loans	1,575	\$9,138,627.00															1,575	\$9,138,627
Total Disbursed to CT Students-																		
Attending Out-of-State Institutions	3,600	\$36,178,687	259	\$3,633,514	151	\$1,868,675	366	\$4,960,399	466	\$5,149,868	999	\$9,430,573	914	\$8,063,022	826	\$7,467,595	7,581	\$76,752,333
Grand Total	20,394	\$186,076,783	1,225	\$16,212,316	743	\$8,813,427	1,866	\$28,321,052	2,308	\$26,527,184	4,188	\$37,871,341	2,726	\$23,506,638	2,136	\$19,481,010	35,586	\$346,809,751

CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY - HISTORICAL LENDING (06/12)

Institution	[1990 Resolution] Pre-2003 Series AB		[2003 Resolution] 2003 Series A		[2003 Resolution] 2003 Series B		[2003 Resolution] 2005 Series A		[2003 Resolution] 2006 Series A		[2003 Resolution] 2007 Series A		[1990 Resolution] 2009 Series A		[1990 Resolution] 2010 Series A		Total Number Of Students	Total Distribution to Students
	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans	Number of Loans	Amount of Loans		
	Disb. (1)	Disb. (1)	Disb. (2)	Disb. (2)	Disb. (3)	Disb. (3)	Disb. (4)	Disb. (4)	Disb. (5)	Disb. (5)	Disb. (6)	Disb. (6)	Disb. (7)	Disb. (7)	Disb. (8)	Disb. (8)		
CONNECTICUT HIGHER EDUCATION SUPPLEMENTAL LOAN AUTHORITY - HISTORICAL LENDING (Percentage Basis)																		
Albertus Magnus College	1.09%	0.84%	0.33%	0.22%	0.54%	0.51%	0.54%	0.44%	0.48%	0.52%	1.00%	0.67%	0.92%	0.62%	0.47%	0.32%	0.92%	0.68%
ARC - Alt. Route to Cert. (CT DHE)	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.51%	0.24%	0.70%	0.29%	0.08%	0.03%
Capital Community College	0.00%	0.00%	0.24%	0.07%	0.00%	0.00%	0.11%	0.04%	0.09%	0.10%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.02%
Charter Oak State College	0.05%	0.02%	0.00%	0.00%	0.00%	0.00%	0.11%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%	0.04%	0.02%
Central Connecticut State University	1.96%	1.10%	3.51%	2.33%	2.42%	1.48%	4.07%	2.40%	4.55%	2.56%	3.01%	1.55%	1.72%	0.85%	1.87%	1.07%	2.40%	1.42%
Connecticut College	1.52%	1.79%	0.08%	0.15%	0.40%	0.40%	0.27%	0.31%	0.00%	0.00%	0.17%	0.13%	0.00%	0.00%	0.00%	0.00%	0.92%	1.02%
Eastern Connecticut State University	2.15%	1.21%	3.10%	1.60%	4.04%	2.32%	2.47%	1.54%	3.55%	1.66%	3.20%	1.80%	3.01%	1.72%	3.89%	2.30%	2.62%	1.48%
Fairfield University	6.49%	7.53%	4.49%	4.87%	4.71%	4.33%	4.34%	5.20%	5.33%	5.67%	4.56%	5.68%	4.70%	5.92%	3.46%	3.84%	5.65%	6.48%
Gateway Community College	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.04%	0.02%	0.00%	0.00%	0.04%	0.03%	0.00%	0.00%	0.01%	0.01%
Goodwin College, Inc.	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.09%	0.05%	0.02%	0.01%	0.07%	0.05%	0.33%	0.26%	0.03%	0.02%
Graduate Institute	0.00%	0.00%	0.33%	0.21%	0.54%	0.47%	0.16%	0.09%	0.26%	0.31%	0.33%	0.32%	0.73%	0.90%	0.89%	0.79%	0.20%	0.19%
Hartford Seminary	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%	0.00%	0.00%	0.00%	0.05%	0.00%	0.01%	0.01%
Housatonic Community College	0.00%	0.00%	0.08%	0.02%	0.00%	0.00%	0.00%	0.00%	0.13%	0.03%	0.02%	0.02%	0.00%	0.00%	0.00%	0.00%	0.02%	0.01%
Rensselaer at Hartford	0.09%	0.07%	0.00%	0.00%	0.00%	0.00%	0.05%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.06%	0.04%
Lyme Academy of Fine Arts	0.01%	0.01%	0.08%	0.07%	0.00%	0.00%	0.21%	0.14%	0.13%	0.06%	0.31%	0.24%	0.40%	0.32%	0.42%	0.21%	0.12%	0.09%
Manchester Community College	0.02%	0.01%	0.00%	0.00%	0.27%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%	0.01%	0.02%	0.01%
Mitchell College	0.18%	0.18%	0.08%	0.11%	0.13%	0.19%	0.21%	0.34%	0.17%	0.27%	0.60%	0.44%	1.25%	1.01%	0.80%	0.59%	0.34%	0.31%
Naugatuck Valley Community College	0.04%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.09%	0.02%	0.00%	0.00%	0.00%	0.00%	0.09%	0.02%	0.03%	0.01%
Northwestern CT Community College	0.80%	1.13%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.14%	0.08%	0.00%	0.47%	0.61%
Quinnipiac University	6.91%	6.75%	8.33%	8.83%	10.63%	12.49%	16.35%	18.44%	15.81%	17.82%	11.58%	13.42%	7.52%	8.89%	10.63%	13.33%	8.93%	10.04%
Quinnipiac University School of Law	1.80%	2.55%	0.08%	0.10%	0.00%	0.00%	0.11%	0.12%	0.22%	0.23%	0.02%	0.04%	0.11%	0.11%	0.00%	0.00%	1.07%	1.41%
Sacred Heart University	6.89%	7.09%	23.67%	26.27%	18.84%	21.28%	20.31%	23.51%	12.82%	19.50%	16.12%	18.10%	13.83%	15.49%	13.20%	16.34%	10.80%	12.93%
Southern Connecticut State University	1.11%	0.66%	1.80%	1.06%	1.35%	0.87%	1.88%	0.95%	2.21%	0.94%	1.48%	0.65%	1.10%	0.49%	2.11%	1.16%	1.35%	0.75%
Saint Joseph College	2.10%	1.31%	1.31%	0.83%	1.75%	1.35%	1.13%	0.91%	1.21%	0.77%	1.34%	1.04%	1.65%	1.19%	1.59%	1.36%	1.80%	1.38%
Saint Vincent College	0.10%	0.07%	0.00%	0.00%	0.00%	0.00%	0.16%	0.12%	0.04%	0.04%	0.21%	0.17%	0.00%	0.00%	0.00%	0.00%	0.09%	0.07%
Teikyo Post University	0.38%	0.27%	0.49%	0.23%	0.67%	0.50%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.17%
Three Rivers Community College	0.05%	0.07%	0.08%	0.04%	0.27%	0.08%	0.00%	0.00%	0.04%	0.01%	0.07%	0.03%	0.04%	0.05%	0.01%	0.00%	0.06%	0.05%
Trinity College	1.10%	1.27%	0.33%	0.12%	0.00%	0.00%	0.38%	0.30%	0.22%	0.12%	0.50%	0.42%	0.40%	0.57%	0.51%	0.73%	0.80%	0.85%
Tunxis Community College	0.07%	0.04%	0.16%	0.04%	0.00%	0.00%	0.05%	0.01%	0.04%	0.02%	0.10%	0.03%	0.04%	0.07%	0.19%	0.08%	0.08%	0.04%
University of Bridgeport	1.01%	0.79%	0.24%	0.17%	0.13%	0.06%	0.11%	0.11%	0.00%	0.00%	0.10%	0.05%	0.51%	0.44%	0.33%	0.17%	0.67%	0.49%
University of Conn. - School of Law	0.08%	0.06%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%	0.03%
University of Conn. - School of Social Work	0.12%	0.07%	0.08%	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.07%	0.04%
University of Conn. - Dental/Health Center	0.44%	0.35%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.25%	0.19%
University of Conn. - School of Medicine	0.22%	0.17%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.13%	0.09%
University of Conn. - Storrs Campus	10.33%	7.31%	6.12%	3.75%	5.11%	3.39%	2.73%	1.70%	5.85%	3.72%	5.32%	3.28%	4.66%	3.30%	4.17%	2.93%	7.99%	5.36%
University of Hartford	9.66%	10.44%	13.47%	13.93%	17.90%	17.26%	15.65%	16.14%	16.81%	14.50%	13.85%	12.77%	11.26%	10.66%	4.63%	4.53%	11.06%	11.49%
University of New Haven	1.82%	1.61%	1.14%	1.00%	1.21%	0.94%	0.91%	0.72%	1.36%	0.48%	1.36%	1.48%	4.15%	3.92%	4.49%	3.95%	1.94%	1.68%
Wesleyan University	3.03%	3.77%	0.16%	0.23%	0.13%	0.17%	0.54%	0.42%	0.56%	0.77%	1.12%	1.34%	1.17%	1.18%	0.80%	1.08%	2.08%	2.42%
Western Connecticut State University	0.34%	0.20%	0.82%	0.54%	0.67%	0.41%	0.48%	0.33%	0.95%	0.54%	1.34%	0.70%	1.50%	0.66%	0.84%	0.36%	0.65%	0.36%
Wilcox College of Nursing	0.75%	1.43%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.43%	0.77%
Yale University - College	7.16%	10.10%	8.00%	10.53%	7.81%	10.18%	7.02%	8.09%	7.58%	9.85%	8.26%	10.39%	4.04%	5.20%	4.54%	5.74%	6.95%	9.39%
Yale University - Graduate School	0.38%	0.41%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.10%	0.04%	0.00%	0.00%	0.00%	0.22%	0.24%
Yale University - School of Art	0.08%	0.07%	0.00%	0.00%	0.00%	0.00%	0.05%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.05%	0.04%
Yale University - School of Drama	0.02%	0.01%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.01%
Yale University - School of Forestry	0.03%	0.03%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.02%	0.00%
Yale University - School of Law	1.38%	1.67%	0.08%	0.03%	0.00%	0.00%	0.08%	0.00%	0.00%	0.00%	0.07%	0.23%	0.00%	0.00%	0.00%	0.00%	0.80%	0.92%
Yale University - School of Medicine	0.68%	0.60%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.06%	1.77%	0.00%	0.00%	0.47%	0.44%
Yale University - School of Nursing	0.54%	0.46%	0.16%	0.19%	0.13%	0.04%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.32%	0.26%
Yale University - School of Management	1.59%	1.71%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.91%	0.92%
Total Disbursed to Students-																		
Attending Connecticut Institutions	74.62%	75.65%	78.86%	77.59%	79.68%	78.80%	80.39%	82.49%	79.81%	80.59%	76.15%	75.10%	66.47%	65.70%	61.33%	61.67%	74.27%	75.23%
10.98% Loans	7.72%	4.91%															4.43%	2.64%
Total Disbursed to CT Students-																		
Attending Out-of-State Institutions	17.65%	19.44%	21.14%	22.41%	20.32%	21.20%	19.61%	17.51%	20.19%	19.41%	23.85%	24.90%	33.53%	34.30%	38.67%	38.33%	21.30%	22.13%
Grand Total	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%



Exhibit C – Loan Program Manual

CONNECTICUT HIGHER EDUCATION

SUPPLEMENTAL LOAN AUTHORITY

CHESLA LOAN PROGRAM

PROGRAM MANUAL

ADOPTED AUGUST 14, 1996,

AMENDED AS OF DECEMBER 10, 1999

AMENDED AS OF OCTOBER 2, 2001

AMENDED AS OF JULY 30, 2008

* * * * *

ADDENDUM, AUGUST 19, 1998

ADDENDUM, OCTOBER 27, 1999

ADDENDUM, NOVEMBER 2, 2000

ADDENDUM, OCTOBER 31, 2001 & NOVEMBER 2, 2001

ADDENDUM, JUNE 30, 2003

ADDENDUM, MARCH 2, 2005

ADDENDUM, AUGUST 2, 2006

ADDENDUM, AUGUST 10, 2007

ADDENDUM, JULY 29, 2009

ADDENDUM, OCTOBER 5, 2010

TABLE OF CONTENTS

	Page
I. GUIDELINES	4
A. PURPOSE	4
B. DEFINITIONS	4
C. OVERVIEW OF CHESLA LOAN PROGRAM	8
1. Amount	8
2. Frequency of Loans	8
3. Interest Rate	8
4. Repayment Term and Schedule	8
5. Promissory Note	9
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	10
3. School Certification Form and Calculation of Net Cost of Education	10
E. LOAN ORIGINATION	11
1. Application Processing by the Servicer	11
2. Debt-to-Income Determination by Servicer	11
3. Credit Analysis by the Servicer	12
4. Credit History	12
F. LOAN APPROVAL/DISAPPROVAL	13
1. Limited Review of Applications Which Exceed Debt-to-Income Ratio	13
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	16

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 CHESLA 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 Undergraduate Student, an Eligible Graduate Student, and any parent, legal guardian, or sponsor of an Eligible Undergraduate Student or Eligible Graduate Student attending an Eligible College or University, who completes, signs and submits an Application on behalf of such student with the intention of being accepted as a Borrower or Co-Borrower under the Program.

“Application” means an application for a CHESLA 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) exempt from taxation under said code as a governmental unit.

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

“Eligible Student” means an Eligible Graduate Student or an Eligible Undergraduate Student.

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

“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 CHESLA 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 CHESLA 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 , on its internet web site 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 disbursement dates 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. 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
CHESLA 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
CHESLA 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
CHESLA 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
CHESLA 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
CHESLA 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.

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

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

Dated August 2, 2006

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

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

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

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

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

Dated August 10, 2007

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

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

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

Dated July 29, 2009

Per the Determination of the Bond Committee of the Connecticut Higher Education Supplemental Loan Authority on July 29, 2009:

1. Loans made with proceeds of the Authority's \$30,000,000 Revenue Bonds (CHESLA Loan Program) 2009 Series A (the "2009 Series A Bonds") initially shall bear interest at a stated rate of 6.80% 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 notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc, if such agency is then rating the 2009 Series A Bonds, that such increase or decrease, in and of itself, will not cause the rating on the 2009 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2009 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority provided the Authority has notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc, if such agency is then rating the 2009 Series A Bonds, that such increase or decrease, in and of itself, will not cause such rating on the 2009 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

3. 2009 Loans will be serviced by Firstmark Services LLC.

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

Dated October 5, 2010

Per the Determination of the Bond Committee of the Connecticut Higher Education Supplemental Loan Authority on October 5, 2010:

1. Loans made with proceeds of the Authority's \$45,000,000 Revenue Bonds (CHESLA Loan Program) 2010 Series A (the "2010 Series A Bonds") initially shall bear interest at a stated rate of 5.95% 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 notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc, if such agency is then rating the 2010 Series A Bonds, that such increase or decrease, in and of itself, will not cause the rating on the 2010 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

2. Initially, the Reserve Fee shall be three percent (3%) for Loans made with proceeds of the 2010 Series A Bonds. The Reserve Fee may be increased or decreased by resolution of the Authority provided the Authority has notified Fitch Ratings of such change and has received written confirmation from Moody's Investors Service, Inc, if such agency is then rating the 2010 Series A Bonds, that such increase or decrease, in and of itself, will not cause such rating on the 2010 Series A Bonds to be withdrawn or lower than the rating in effect immediately prior to such change; provided, however, that should such change be necessary to maintain the tax-exempt status of any Bonds of the Authority, no such confirmation shall be required.

3. 2010 Loans will be serviced by Firstmark Services LLC.

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

Stated Rate of Interest on Outstanding Loans

Revenue Bonds	Stated Rate of Interest (per annum)
1990 Series A	9.70 %
1991 Series A	9.20 %
1993 Series A	8.40 %
1994 Series A	8.25 %
1996 Series A	8.10 %
1998 Series A	7.50 %
1998 Series B	7.50 %
1999 Series A	7.50 %
1999 Series B	7.50 %
2000 Series A	7.25 %
2000 Series B	7.25 %
2001 Series A	6.70%
2003 Series A	4.99%
2003 Series B	4.99%
2005 Series A	5.50%
2005 Series B	5.50%
2006 Series A	6.15%
2007 Series A	6.99%
2009 Series A	6.80%
2010 Series A	5.95%