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October 8, 2009

Ms. Vicki Freeburn  
Administrative Coordinator  
Bureau of Legislative Research  
Room 315, State Capitol  
Little Rock, AR 72201

***Via Hand Delivery***

Re: Arkansas Student Loan Authority Plan of Restructuring, 2009  
for Arkansas Legislative Council, Meeting of October 16, 2009

Dear Ms. Freeburn:

The Arkansas Student Loan Authority proposes to restructure its existing bonded indebtedness by issuing refunding bonds and transferring student loans to Straight-A Funding, a federally sponsored conduit.

Enclosed is an information sheet which we would appreciate you distributing to council members. The information sheet describes the requested action, the purpose of the Plan of Restructuring, the security for the bonds, and a description of the bonds.

The State Board of Finance took favorable action with regard to the Plan of Restructuring this morning.

Ark. Code Ann. § 6-81-108 requires that the Arkansas Student Loan Authority's financings have the "written approval of the Governor after he has received the advice of the Legislative Council." If the Legislative Council votes to provide favorable advice to the Governor, please provide this information to the Governor and copy both Mr. Williams of the Arkansas Student Loan Authority and me.

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Please advise if you need anything further from us or if you have any questions concerning this request.

Cordially,

WILLIAMS & ANDERSON PLC

  
W. Jackson Williams

WJW/jsc  
Enclosures

cc w/encl.: Mr. Tony Williams  
Mr. Mark Conine  
Mr. Grant Carwile

**ARKANSAS STUDENT LOAN AUTHORITY  
2009 PLAN OF RESTRUCTURING**

**INFORMATION FOR LEGISLATIVE COUNCIL  
October 16, 2009**

**Requested Action**

Pursuant to Act 873 of 1977, each bond issue of the Arkansas Student Loan Authority ("ASLA") must be approved by the State Board of Finance and the Governor, after he has obtained the advice of the Legislative Council. ASLA is asking Legislative Council to render its favorable advice to the Governor with respect to its 2009 Plan of Restructuring relating to its outstanding bonds. The State Board of Finance at its meeting on October 8, 2009 gave its consent to the Plan of Restructuring.

**Purpose of Plan**

The purpose of the Plan of Restructuring is to respond to the collapse of and to mitigate the risks associated with the auction rate bond market. ASLA's bonds were issued in auction rate mode, the favored mode for the student loan industry for many years. As a result of the collapse of the auction rate bond market, ASLA has experienced not only a lack of liquidity but also a heightened risk of increased interest cost for its bonds. Therefore, ASLA contemplates (1) converting its outstanding bonds to variable rate demand bonds and (2) transferring eligible student loans to Straight-A Funding, a conduit warehousing facility sponsored by the U.S. Department of Education. The restructuring involves neither an increase in the amount of debt outstanding nor an extension of maturity. Proceeds of the refunding bonds and the loan transfer will retire all outstanding auction rate bonds and a portion of the line of credit extended to ASLA by the State Board of Finance. The remainder of the line of credit will be paid off after loans for the current academic year are fully disbursed through a sale of those loans to the U.S. Department of Education.

**Security for Bonds**

All refunding bonds will be secured solely by the student loans and the funds and accounts associated with the bonds. Neither the faith and credit of the State nor any of its revenues will be used to repay the obligations, and the refunding bonds shall not constitute an indebtedness of the State within the meaning of any constitutional or statutory limitations.

**Description of the Restructuring Plan**

The Restructuring Plan as approved by the Board of ASLA and the State Board of Finance is attached hereto as Exhibit A. The final structure of any proposed financing will be determined by ASLA with the advice of its Financial Advisor, Underwriter and Bond Counsel. The restructuring is anticipated to be completed by December 31, 2009.

**ARKANSAS STUDENT LOAN AUTHORITY**  
**(“ASLA”)**  
**Plan of Restructuring**  
**2009**

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**Purposes of  
Restructuring:**

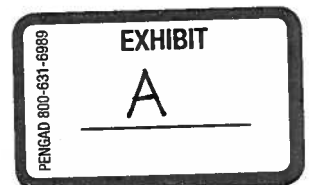
The purpose of the Restructuring is to respond to the collapse of the auction rate bond market and mitigating the risk associated with the auction rate bond market. Most of the ASLA's bonds have been issued in auction rate mode, which was the favored mode for the student loan industry for many years.

The auction rate market collapsed in early 2008 and shows no signs of recovery. The auction rate bond market experienced this collapse due to a lack of demand from investors for auction rate bonds. The primary reason for the troubled auction rate market was the crisis experienced in the sub-prime mortgage lending business. There is not a direct relationship between the sub-prime mortgage lending business and the student loan industry; however, since much of the sub-prime mortgage lending was also issued in auction rate paper, the difference in loan quality has largely been ignored by investors. Consequently, ASLA has experienced a lack of liquidity for its bonds with consequent risk of increase in interest cost to maintain its bonds in the current auction rate mode.

Therefore, ASLA contemplates (1) converting its current issues to variable rate demand bonds and (2) transferring eligible student loans to Straight-A Funding, a conduit warehousing facility sponsored by the U. S. Department of Education. No increased debt in the Restructuring is contemplated nor any extension of maturity of existing indebtedness.

Proceeds for the Refunding Bonds and the Straight-A Funding loan transfer will retire all outstanding auction rate bonds and a portion of the line of credit extended to ASLA by the State Board of Finance.

**Amount of Debt  
to be Restructured:** Approximately \$549,000,000



**Restructuring  
Elements:**

The restructuring is expected to involve a total of \$607,500,000 of outstanding auction rate bonds and approximately \$15,000,000 of the line of credit extended by the State Board of Finance, by:

(1) calling for payment prior to maturity of the outstanding Series 1996A Bonds in the current principal amount of \$42,900,000 due June 1, 2010, and the outstanding Series 1997A Bonds in the current principal amount of \$31,150,000 due June 1, 2014; and

(2) refinancing approximately \$534,000,000 of auction rate bonds and approximately \$15,000,000 of the outstanding line of credit extended by the State Board of Finance with a combination of the issuance of variable rate demand bonds and the transfer of eligible student loans to Straight-A Funding.

The Plan of Restructuring anticipates the proceeds of the Refunding Bonds and Straight-A Funding loan transfer will be used (i) to refund certain prior outstanding obligations of the Authority, (ii) if necessary, to fund a debt service reserve and/or capitalized interest account, and (iii) to pay the costs of issuance associated with the Refunding Bonds and the loan transfer.

**Estimated  
Timing:**

The Restructuring is anticipated to be completed by December 31, 2009.

**Security for the  
Refunding Bonds:**

The Refunding Bonds will be secured by and payable solely from the financed student loans and moneys in the accounts held under the bond indenture. Neither the faith and credit of the State nor any of its revenues will be pledged to or used for repayment of the Refunding Bonds.

**Security  
Documents:**

The Refunding Bonds will be issued under a new Indenture of Trust as supplemented by a contemplated First Supplemental Indenture of Trust.