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Update on Auctions of Bonds Previously Issued by MHESAC

(HELENA) Since the second week of February, Montana Higher Education Student Assistance Corporation (MHESAC) has been informing the public that auctions associated with auction rate bonds that have been previously issued by MHESAC have been encountering problems.

As of February 28, recent auctions on Wall Street associated with \$953 million of MHESAC's outstanding auction bonds have recently been unsuccessful - meaning that the resale of previously issued MHESAC auction bonds between bondholders has not occurred. This disruption in the auction bond market is an ongoing manifestation of widespread credit and liquidity problems plaguing the financial markets.

For the first time since February 10th, an auction of MHESAC auction bonds was successful as \$30 million of taxable bonds were resold today. "This is a positive sign that certain investors are still relying upon and understand the strength of the credit quality of the assets financed by MHESAC's bonds. Unfortunately, \$155.9 million of tax-exempt auctions and \$13.3 million of taxable auctions were not successful this week."

Failures in auctions on outstanding auction bonds are currently widespread across the student loan industry as well as in other asset classes financed by auctions bonds. The Wall Street Journal reported earlier this month that bond auctions associated with long-term student loan financings by groups including Goldman Sachs Group, J.P. Morgan Chase and Co. and Citigroup Inc. have failed to spark the interest of investors.

"We still remain very concerned about the failure of the auctions and we continue to work diligently to develop strategies to refinance a significant portion of its outstanding auction bond securities. MHESAC's ability to accomplish such strategies will be dependent upon a number of factors, including the availability of certain financing vehicles, if applicable, and related liquidity and/or credit enhancement facilities."

But Stipcich reiterates "the most important message is that MHESAC has financing in place for Montana student loans for next fall — \$175 million for the 2008-2009 academic year — and we do not anticipate any impact on the availability of such MHESAC funds for providing student loans to Montanans."

MHESAC, a nonprofit company has \$2 billion of debt which finances student loans, Stipcich explained. Of that, \$1.1 billion are tax-exempt auction bonds that were issued between 1995 and 2006 and upon which the interest rates are reset every 35 days through an auction process. As of today, the failed tax-exempt auctions for MHESAC total \$813.8 million and failed taxable auctions total \$139 million.

Usually at every interest reset rate, auction bonds are rolled over and often repurchased by the same bondholder with the interest adjusted to reflect current rates. At every interest reset rate bondholders can attempt to sell the bonds, however, in the existing marketplace, auction bonds aren't attracting bidders, causing bondholders to retain ownership of the bonds and interest rates paid on failed auction bonds to rise. The effort to resell the bonds is coordinated through a contracted third party. The interest rate on bonds where a failed auction has occurred is determined by a preset formula that is based on market indices.

Despite the current unrest in the auction market, MHESAC's senior auction bonds retain the highest possible rating by the country's largest rating agencies, Stipcich said.

The failure of MHESAC auction bondholders to be able to resell their bonds does not mean that MHESAC cannot or has not been able to sell bonds. MHESAC last effort to sell bonds was in December 2007 and occurred without any problems. MHESAC has not attempted to sell any bonds since that date.

Of MHESAC's debt that is not auction bonds — about \$900 million — \$725 million are fixed rate bonds or bonds financed at a fixed spread over a given index, with the other \$175 million being variable rate demand obligations that were issued in December 2007 that require a third party to buy the bonds if sellers want to sell and other buyers are unavailable.

Montana Higher Education Student Assistance Corporation is a 501(c)(3) nonprofit corporation organized under Section 150(d) of the U.S. Tax Code. MHESAC is dedicated to ensuring access to student loans and lowering the cost of financing postsecondary education by providing capital in the Federal Family Education Loan Program (FFELP) student loan secondary market, loan origination activities and borrower rebate programs. For more information, visit www.mhesac.org.