

**PRELIMINARY OFFICIAL STATEMENT DATED \_\_\_\_\_, 2016**

**NEW ISSUE - Book-Entry-Only**

**Ratings:**

Moody's: "Aaa"  
S&P: "AAA"  
See "OTHER RELEVANT  
INFORMATION—Ratings"  
herein

*In the opinion of McCall, Parkhurst & Horton L.L.P. and Mahomes Bolden PC ("Co-Bond Counsel"), assuming compliance with certain covenants and based on certain representations, interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date thereof. Interest on the Bonds, however, is an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See "TAX MATTERS" herein for a discussion of Co-Bond Counsel's opinion.*

**\$ \_\_\_\_\_,000  
STATE OF TEXAS  
(General Obligation Bonds)  
COLLEGE STUDENT LOAN BONDS,  
SERIES 2016**

**Dated December 1, 2016  
(Interest accrues from date of delivery)**

**Due: August 1, as shown on  
inside front cover**

The \$ \_\_\_\_\_,000 State of Texas College Student Loan Bonds, Series 2016 (the "Bonds") will be issued by the Texas Higher Education Coordinating Board (the "Board") pursuant to a Resolution of the Board and under the authority of the Constitution and laws of the State of Texas (the "State"), particularly (i) Article III, Section 50b-7 of the State Constitution, (ii) Chapter 52, Texas Education Code, as amended, and (iii) Chapter 1371, Texas Government Code, as amended. THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE PURSUANT TO THE CONSTITUTION OF THE STATE AND ARE SECURED BY THE FULL FAITH AND CREDIT OF THE STATE. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" herein. Proceeds from the sale of the Bonds will be used to fund an ongoing student loan program which provides low interest loans to eligible students at institutions of higher education in the State. See "PLAN OF FINANCE" herein.

Interest on the Bonds will accrue from their date of delivery and will be payable on February 1 and August 1 of each year, commencing August 1, 2017 (each, an "Interest Payment Date"), and will be calculated on the basis of a 360-day year composed of 12 months of 30 days each. In the event any Interest Payment Date is not a Business Day (as defined herein), interest on the Bonds is payable on the next succeeding Business Day. See "THE BONDS" herein. The initial Paying Agent/Registrar for the Bonds will be \_\_\_\_\_, at its office in \_\_\_\_\_, \_\_\_\_\_. See "THE BONDS—Paying Agent/Registrar" herein.

**Certain of the Bonds are subject to redemption prior to maturity as described herein. See "THE BONDS—Redemption of Bonds" herein.**

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**CUSIP PREFIX: 882723**

**MATURITY SCHEDULE AND 9 DIGIT CUSIP**

**See inside front cover**

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The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), New York, New York, pursuant to the book-entry-only system described herein. **No physical delivery of the Bonds will be made to the owners thereof except as described herein.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "THE BONDS—Book-Entry-Only System" herein.

*The Bonds are offered for delivery when, as and if issued, subject to the approving opinions of the Attorney General of the State of Texas and of McCall, Parkhurst & Horton L.L.P., Austin, Texas, and Mahomes Bolden PC, Dallas, Texas, Co-Bond Counsel (see "APPENDIX D—Form of Opinion of Co-Bond Counsel"). It is expected that the Bonds will be available for delivery through the facilities of DTC on or about December \_\_, 2016.*

**MATURITY SCHEDULE****CUSIP Prefix<sup>(1)</sup>: 882723**

**\$ \_\_\_\_\_,000**  
**STATE OF TEXAS**  
**(General Obligation Bonds)**  
**COLLEGE STUDENT LOAN BONDS,**  
**SERIES 2016**

<u>Maturity Date</u> <u>(August 1)<sup>(2)</sup></u>	<u>Maturing Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering</u> <u>Yield</u>	<u>CUSIP Suffix<sup>(1)</sup></u>
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- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by Standard & Poor's Capital IQ on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Board, the Financial Advisor or the Initial Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (2) The Initial Purchaser may elect to combine two or more consecutive annual principal amounts of the Bonds into one or more Term Bonds subject to mandatory sinking fund redemption. See accompanying "Notice of Sale and Bidding Instructions."

For purposes of compliance with Rule 15c2-12 of the U.S. Securities and Exchange Commission (the “Rule”), this document constitutes an Official Statement of the Board with respect to the Bonds that has been deemed “final” by the Board as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesman, or other person has been authorized by the Board to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon as having been authorized by the Board. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement, nor any sale made hereunder, shall, under any circumstances, create any implication that there has been no change in the affairs of the Board or the State of Texas since the date hereof. This Official Statement is submitted in connection with the sale of the Bonds and in no instance may this Official Statement be reproduced or used for any other purpose.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION WILL NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Board assumes no responsibility for the registration or qualification for sale or other disposition of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

The statements contained in this Official Statement, and in other information provided by the Board, that are not purely historical, are forward-looking statements, including statements regarding the Board’s expectations, hopes, intentions or strategies regarding the future. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements.

The Financial Advisor and the Initial Purchaser have provided the following sentence for inclusion in this Official Statement. The Financial Advisor and the Initial Purchaser have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, but neither the Financial Advisor nor the Initial Purchaser guarantees the accuracy or completeness of such information.

None of the Board, the Financial Advisor or the Initial Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its book-entry-only system under the caption “THE BONDS—Book-Entry-Only System” herein.

**IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE BOARD AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.**

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## CERTAIN STATE ELECTED OFFICIALS

Greg Abbott.....	Governor
Dan Patrick.....	Lieutenant Governor
Ken Paxton.....	Attorney General
Glenn Hegar .....	Comptroller of Public Accounts

## BOARD MEMBERS

		<u>Expiration of Term</u>
Robert “Bobby” Jenkins, Jr. ....	Chair	August 31, 2017
Stuart W. Stedman.....	Vice Chair	August 31, 2021
David D. Teuscher, M.D. ....	Secretary	August 31, 2017
Arcilia C. Acosta.....	Member	August 31, 2019
S. Javaid Anwar .....	Member	August 31, 2019
Fred Farias III, O.D. ....	Member	August 31, 2019
Ricky A. Raven .....	Member	August 31, 2021
Wanda “Janelle” Shepard.....	Member	August 31, 2017
John T. Steen, Jr. ....	Member	August 31, 2019
Haley E.R. DeLaGarza <sup>1</sup> .....	Student Representative	May 31, 2016

## SELECT STAFF MEMBERS

Dr. Raymund A. Paredes .....	Commissioner of Higher Education
Dr. David Gardner.....	Deputy Commissioner – Academic Planning and Policy/Chief Academic Officer
Linda Battles .....	Deputy Commissioner – Agency Operations and Communications/Chief Operating Officer
Kenneth Martin .....	Assistant Commissioner – Financial Services / Chief Financial Officer
Chad Puls .....	Deputy Assistant Commissioner, Student Financial Aid Programs
William Franz.....	General Counsel

## CONSULTANTS

Co-Bond Counsel .....	McCall, Parkhurst & Horton L.L.P. Austin, Texas
	Mahomes Bolden PC Dallas, Texas
Financial Advisor .....	FirstSouthwest, a Division of Hilltop Securities Dallas, Texas

<sup>1</sup> Student Representative. State law does not allow the Student Representative to vote on any matter before the Board.

**SUMMARY STATEMENT**  
**\$ \_\_\_\_\_,000**  
**STATE OF TEXAS**  
**(General Obligation Bonds)**  
**COLLEGE STUDENT LOAN BONDS,**  
**SERIES 2016**

The following Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. This summary page was prepared to present information concerning the Bonds to the purchasers of the Bonds, the sources pledged to payment of the Bonds and other pertinent data, all as more fully described herein. No person is authorized to detach this summary page from this Official Statement or to otherwise use it without the entire Official Statement.

<b>THE BONDS</b> .....	The \$ _____,000 State of Texas College Student Loan Bonds, Series 2016 (the “Bonds”).
<b>THE ISSUER</b> .....	The State of Texas, acting through the Texas Higher Education Coordinating Board. See “THE BOARD” herein.
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are issued pursuant to a Resolution of the Board and under the authority of the Constitution and laws of the State of Texas (the “State”), particularly (i) Article III, Section 50b-7 of the State Constitution, (ii) Chapter 52, Texas Education Code, as amended (the “Act”) and (iii) Chapter 1371, Texas Government Code, as amended. See “THE BONDS—Authority for Issuance” herein.
<b>SECURITY FOR THE BONDS</b> .....	Money received by the Board in each fiscal year as repayment of student loans granted under the Act must first be deposited in the Interest and Sinking Fund (as hereinafter defined) in the amount required by the Act. Money in the Interest and Sinking Fund is pledged pursuant to the Resolution to secure payment of principal of and interest on the Bonds. IN ADDITION, THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE OF TEXAS PURSUANT TO THE CONSTITUTION OF THE STATE AND ARE SECURED BY THE FULL FAITH AND CREDIT OF THE STATE. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” herein.
<b>REDEMPTION</b> .....	Certain of the Bonds are subject to redemption prior to maturity as described herein. See “THE BONDS—Redemption of Bonds” herein.
<b>INITIAL PAYING AGENT/REGISTRAR</b> .....	_____, at its office in _____, _____ a. See “THE BONDS—Paying Agent/Registrar” herein.
<b>TAX MATTERS</b> .....	In the opinion of McCall, Parkhurst & Horton L.L.P. and Mahomes Bolden PC (“Co-Bond Counsel”), assuming compliance with certain covenants and based on certain representations, interest on the Bonds is excludable from gross income for federal income tax purposes under existing law. Interest on the Bonds, however, is an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals and corporations. See “TAX MATTERS” herein for a discussion of Co-Bond Counsel’s opinion.
<b>USE OF BOND PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used to fund an ongoing student loan program which provides low interest loans to eligible students at institutions of higher education in the State.
<b>PAYMENT RECORD</b> .....	The Board has never defaulted.
<b>RATINGS</b> .....	Moody’s Investors Service: “Aaa” and S&P Global Ratings: “AAA” See “OTHER RELEVANT INFORMATION—Ratings” herein.
<b>LEGAL INVESTMENTS IN TEXAS</b> .....	The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. See “OTHER RELEVANT INFORMATION—Legal Investments and Eligibility to Secure Public Funds in Texas” herein.

For additional information concerning this offering, please contact:

Ken Martin  
Assistant Commissioner – Financial Services / Chief Financial Officer  
Texas Higher Education Coordinating Board  
1200 E. Anderson Lane  
Austin, Texas 78752  
(512) 427-6173

Lee Donner  
Managing Director  
505 W. Fifth Street, Suite 280  
Clifton, Texas 76634  
(254) 675-3552

**OFFICIAL STATEMENT**  
**pertaining to**  
**\$\_\_\_\_\_,000**  
**STATE OF TEXAS**  
**(General Obligation Bonds)**  
**COLLEGE STUDENT LOAN BONDS,**  
**SERIES 2016**

**INTRODUCTION**

At seven separate elections held between 1965 and 2007, the citizens of the State of Texas (the “State”) voted to approve seven separate amendments to Article III of the State Constitution (*i.e.*, Sections 50b, 50b-1, 50b-2, 50b-3, 50b-4, 50b-5, and 50b-6), which collectively authorized the Texas Higher Education Coordinating Board (the “Board”) to issue \$1,860,000,000 in aggregate principal amount of general obligation bonds of the State to be used to make loans to students attending higher education institutions within the State. The Board has issued \$1,559,729,483 in aggregate principal amount of “State of Texas College Student Loan Bonds” pursuant to the constitutional amendments referred to above. At an election held on November 8, 2011, the citizens of the State voted to approve an additional amendment to Article III of the State Constitution (*i.e.*, Section 50b-7), which authorizes the Board to issue College Student Loan Bonds in an aggregate principal amount of outstanding bonds that at all times must be equal to or less than the \$1,860,000,000 in aggregate principal amount of College Student Loan Bonds previously authorized by the State Constitution. All State of Texas College Student Loan Bonds previously issued by the Board and which are currently outstanding are referred to herein as the “Previously Issued Bonds”.

Terms not otherwise defined herein shall have the respective meanings as set forth in the resolution of the Board adopted on October 20, 2016 (the “Resolution”), authorizing the \$\_\_\_\_\_,000 State of Texas College Student Loan Bonds, Series 2016 (the “Bonds”), as set forth in APPENDIX B hereto. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Additional Bonds” herein.

The enabling act, Chapter 52, Texas Education Code, as amended (hereinafter referred to as the “Hinson-Hazlewood College Student Loan Act” or the “Act”), and Section 56.451 *et seq.* of the Texas Education Code provide for the administration of various student loan programs by the Board, consisting of nine voting members appointed by the Governor of the State. See “THE BOARD—Loan Demand and Financial Information” and “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS” herein.

Pursuant to the Act, the Board administers the State of Texas College Student Loan Bonds Interest and Sinking Fund (the “Interest and Sinking Fund”), which was established by the Act as a fund in the State Treasury. Money received by the Board in each Fiscal Year as repayment of student loans granted under the Act and interest thereon must first be deposited in the Interest and Sinking Fund in an amount sufficient to pay the interest on and principal of Previously Issued Bonds, the Bonds and any Additional Bonds to become due during the ensuing Fiscal Year. See “SELECTED PROVISIONS OF THE RESOLUTION—Funds—Interest and Sinking Fund” herein.

Money in the Interest and Sinking Fund is pledged pursuant to the Resolution to secure payment of principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds. IN ADDITION, THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE PURSUANT TO THE CONSTITUTION OF THE STATE AND ARE SECURED BY THE FULL FAITH AND CREDIT OF THE STATE. The Constitutional Provision (as defined herein) provides that while any of the Bonds or interest on the Bonds is outstanding and unpaid, there is appropriated out of the first money coming into the State Treasury in each Fiscal Year, not otherwise appropriated by the State Constitution, the amount sufficient to pay the principal of and interest on the Bonds that mature or become due during the Fiscal Year, less any amount in the Interest and Sinking Fund at the end of the preceding Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” “SELECTED PROVISIONS OF THE RESOLUTION—Funds” and Table 3 and Table 4 under “THE BOARD—Loan Demand and Financial Information” herein. For a discussion of the State’s general and economic information, see APPENDIX A attached hereto, and see “OTHER RELEVANT INFORMATION—General Information Regarding the State of Texas” herein.

The Board also administers the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund, which were established by the Act and Article III, Section 50b of the State Constitution, respectively, as funds within the State Treasury. Pursuant to the Resolution and the resolutions of the Board authorizing the issuance of the Previously Issued Bonds, money received by the Board in each Fiscal Year as repayment of student loans granted under the Act and interest thereon *in excess* of the amount required to be deposited in the Interest and Sinking Fund must be deposited into either the Student Loan Auxiliary Fund or the Texas Opportunity Plan Fund. Such excess loan repayments on deposit in either the Student Loan Auxiliary Fund or the Texas Opportunity Plan Fund may be used, among other things, to make loans to students and to pay administration and operating expenses, and to fund any other lawful purpose, related to the Board’s

student loan programs. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Other Funds Administered by the Board,” “SELECTED PROVISIONS OF THE RESOLUTION—Funds—Student Loan Auxiliary Fund” and Table 3 and Table 4 under “THE BOARD—Loan Demand and Financial Information” herein.

Historically, the Board’s ongoing student loan programs have provided funds through the repayment of student loans and investment interest in amounts sufficient to meet debt service requirements and to pay direct expenses incurred by the Board in connection with the operation of its student loan programs without drawing on the State’s General Revenue Fund.

## **PLAN OF FINANCE**

Proceeds of the Bonds will be deposited by the Board in the Student Loan Auxiliary Fund and used to fund the various student loan programs authorized by the Act. Such loan programs provide low interest loans to eligible students seeking an undergraduate education and/or graduate or professional education through public and independent institutions of higher education in the State. Financial aid administrators in the institutions of higher education in the State determine the eligibility of applicants for assistance under the Board’s various loan programs. See Table 1 in “THE BOARD- Estimated Loan Demand Allocations” herein. See also “SOURCES AND USES OF FUNDS” and “APPENDIX C-SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS” herein. The Board will pay the costs of issuance of the Bonds from other lawfully available funds of the Board.

## **SOURCES AND USES OF FUNDS**

The proceeds from the sale of the Bonds will be applied approximately as follows:

### **Sources of Funds:**

Par amount of the Bonds  
Net Original Issue Discount/Premium

Total Sources

### **Uses of Funds:**

Deposit to Student Loan Auxiliary Fund  
Initial Purchaser's Discount

Total Uses

## **THE BONDS**

### **Authority for Issuance**

The Bonds are issued pursuant to the Resolution and under the authority of the Constitution and laws of the State, particularly (i) Article III, Section 50b-7 of the State Constitution, (ii) the Act and (iii) Chapter 1371, Texas Government Code, as amended.

### **General**

The Bonds will be issued as fully-registered bonds, without coupons, in denominations of \$5,000 and any integral multiple thereof, will be dated December 1, 2016, will accrue interest from their date of delivery, and will bear interest at the per annum rates shown on the inside front cover hereof. Interest on the Bonds is payable on February 1 and August 1 of each year, commencing August 1, 2017 (each, an “Interest Payment Date”), and will be calculated on the basis of a 360-day year comprised of 12 months of 30 days each. The Bonds mature on the dates and in the principal amounts set forth on the inside front cover hereof. The initial Paying Agent/Registrar for the Bonds will be \_\_\_\_\_, at its office in \_\_\_\_\_, \_\_\_\_\_. In the event any Interest Payment Date is not a Business Day, interest on the Bonds is payable on the next succeeding Business Day.

### **Redemption of Bonds**

**Optional Redemption.** On August 1, 20\_\_\_\_, or on any date thereafter, the Bonds maturing on and after August 1, 20\_\_\_\_ may be redeemed prior to their scheduled maturities, at the option of the Board, with funds derived from any lawfully available source, as a whole or in part (provided that a portion of a Bond may be redeemed only in an Authorized



Denomination), at a redemption price of 100% of the principal amount thereof called for redemption, plus accrued interest thereon to the date fixed for redemption. The Board will determine the maturity or maturities of the Bonds, and the principal amount of the Bonds within each maturity, to be redeemed. If less than all the Bonds of a maturity are to be redeemed, the particular Bonds to be redeemed will be selected by the Paying Agent/Registrar by lot or other random method for redemption. The Board will deliver notice to the Paying Agent/Registrar of its intention to redeem Bonds at least 35 days prior to the redemption date.

***Mandatory Sinking Fund Redemption.*** The Bonds maturing on August 1, 20\_\_ shall be subject to mandatory sinking fund redemption prior to maturity at a redemption price of 100% of the principal amount thereof plus accrued interest to the date fixed for redemption, on August 1 in the years and in the principal amounts set forth below:

<p style="text-align: center;"><b>Bonds</b> <b>Maturing August 1, 20__</b></p>	
<p>Redemption Date (August 1)</p>	<p>Principal Amount</p>

The principal amount of such Bonds required to be redeemed pursuant to the operation of such mandatory sinking fund redemption requirements may be reduced, at the option of the Board, by the principal amount of any such Bonds which, prior to the date of the mailing of notice of such mandatory redemption, shall have been (i) acquired by the Board and delivered to the Paying Agent/Registrar for cancellation, or (ii) purchased and canceled by the Paying Agent/Registrar at the request of the Board.

***Partial Redemption.***

- (a) A portion of a single Bond of a denomination greater than an Authorized Denomination may be redeemed but only in a principal amount equal to an Authorized Denomination which will allow for the unredeemed portion thereof to remain in an Authorized Denomination. The Paying Agent/Registrar will treat each minimum Authorized Denomination of such Bond as though it were a single Bond for purposes of selection for redemption.
- (b) Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar will authenticate and deliver an exchange Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

***Notice of Redemption.***

- (a) The Paying Agent/Registrar will cause notice of redemption of any Bond to be redeemed in whole or in part to be mailed by first-class mail to S&P and Moody's and to the Owner thereof at the address of the Owner appearing in the Register at least 30 days prior to the redemption date.
- (b) The notice of redemption will identify the Bonds to be redeemed, and will specify the numbers thereof, the redemption date and the redemption price. The notice will state that (i) on the redemption date the Bonds called for redemption will be payable at the designated office of the Paying Agent/Registrar, and (ii) on and after the redemption date interest will cease to accrue.
- (c) Any notice given as provided in this caption will be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

***Payment Upon Redemption.*** Upon presentation and surrender of any Bond called for redemption at the designated office of the Paying Agent/Registrar on or after the date fixed for redemption, the Paying Agent/Registrar will pay the principal of and accrued interest on such Bond to the date of redemption from the money provided for that purpose.

### ***Effect of Redemption.***

- (a) Notice of redemption having been given, and due provision having been made for payment, the Bonds or portions thereof called for redemption will become due and payable on the date fixed for redemption; thereafter, such Bonds or portions thereof will cease to bear interest from the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.
- (b) If the Board should fail to make provision for the payment of all sums due on a redemption date, then any Bond or portion thereof called for redemption would continue to bear interest until due provision is made with the Paying Agent/Registrar for the payment of same by the Board.

### **Events of Default**

***Events of Default.*** Each of the following occurrences or events is an Event of Default for purposes of the Resolution: (i) the failure to make payment of the principal of, redemption premium, if any, or interest on any of the Bonds when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement, or obligation of the Board, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with the Resolution, and the continuation thereof for a period of 60 days after notice of such default is given by any Owner to the Board.

### ***Remedies.***

- (a) Upon the happening of any Event of Default, any Owner or an authorized representative thereof, including but not limited to, a trustee or trustees therefor, may proceed against the Board for the purpose of protecting and enforcing the rights of the Owners under the Resolution by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained in the Resolution, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners granted by the Resolution or any combination of such remedies.
- (b) All such proceedings will be instituted and maintained for the equal benefit of all Owners of Bonds then Outstanding.
- (c) No remedy conferred by or reserved in the Resolution is intended to be exclusive of any other available remedy or remedies, but each and every such remedy will be cumulative and will be in addition to every other remedy given in the Resolution or under the Bonds or otherwise existing at law or in equity; **provided, however, that the right to accelerate the debt evidenced by the Bonds will not be available as a remedy under the Resolution.**
- (d) The exercise of any remedy conferred by or reserved in the Resolution will not be deemed a waiver of any other available remedy.

### **Registration, Transfer and Exchange; Cancellation; Replacement**

So long as any Bonds remain Outstanding, the Board will cause the Paying Agent/Registrar to keep at its designated office the Register, in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of Bonds in accordance with the Resolution.

The ownership of a Bond may be transferred only upon the presentation and surrender of the Bond at the designated office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Bond will be effective until entered in the Register.

The Bonds will be exchangeable upon the presentation and surrender thereof at the designated office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any Authorized Denomination and in an aggregate principal amount equal to the unpaid principal amount of the Bonds presented for exchange. The Paying Agent/Registrar is authorized by the Resolution to authenticate and deliver Bonds exchanged for other Bonds in accordance with the provisions described in this caption.

Each exchange Bond delivered by the Paying Agent/Registrar in accordance with the provisions described in this caption will be entitled to the benefits and security of the Resolution to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

No service charge will be made to the Owner for the initial registration, any subsequent transfer, or exchange for a different denomination of any of the Bonds. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer, or exchange of a Bond.

Neither the Board nor the Paying Agent/Registrar will be required to issue, transfer or exchange any Bond (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following interest payment date, or (ii) called for redemption prior to maturity, in whole or in part, within 30 days prior to the date fixed for redemption; provided, however, such limitation will not be applicable to an exchange by the Owner of the uncalled principal balance of a Bond.

The Bonds may be issued or subsequently registered in the name of a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended, including The Depository Trust Company, New York, New York, or its nominee, and the successors and assigns of any such entity (the “Securities Depository”) or a nominee therefor, and held in the custody of the Securities Depository. In such event, a single Bond for each maturity will be issued and delivered to the Securities Depository for the Bonds, and neither the beneficial owners of such Bonds nor the Paying Agent/Registrar will receive physical delivery of Bonds except as provided in the Resolution, all transfers of beneficial ownership interests will be made by book-entry only, and no investor or other party purchasing, selling or otherwise transferring beneficial ownership of Bonds will receive, hold or deliver any Bond certificate. The Board and the Paying Agent/Registrar will recognize the Securities Depository or its nominee as the Owner for all purposes, including notices and voting.

Whenever, during the term of the Bonds, the beneficial ownership thereof is determined through the books of the Securities Depository, (i) the Board has covenanted and agreed in the Resolution to meet the requirements of the Securities Depository with respect to required notices and other provisions of the letter of representations or agreement executed with respect to such Bonds, and (ii) the requirements in the Resolution of holding, delivering or transferring such Bonds shall be deemed modified to require the appropriate person to meet the requirements of the Securities Depository with respect to such actions to produce the same effect. Any provisions hereof permitting or requiring delivery of such Bonds will, while such Bonds are in a book-entry-only system maintained by the Securities Depository (the “Book-Entry System”), be satisfied by the notation on the books of the Securities Depository in accordance with applicable State law.

The Board and the Paying Agent/Registrar may rely conclusively upon (i) a certificate of the Securities Depository as to the identity of the Depository Participants in the Book-Entry System with respect to the Bonds and (ii) a certificate of any such Depository Participant as to the identity of, and the respective principal amount of Bonds owned by, the beneficial owners of the Bonds.

The Board may from time to time appoint a Securities Depository or a successor thereto and enter into a letter of representation or other agreement with such Securities Depository to establish procedures with respect to the Bonds.

Neither the Board nor the Paying Agent/Registrar will have any responsibility or obligation to any Securities Depository, any Depository Participant in the Book-Entry System or the beneficial owners of the Bonds with respect to (i) the accuracy of any records maintained by the Securities Depository or any Depository Participant; (ii) the payment by the Securities Depository or by any Depository Participant of any amount due to any beneficial owner of the Bonds in respect of the principal amount or redemption or purchase price of, or interest on, any Bonds; (iii) the delivery of any notice by the Securities Depository or any Depository Participant; (iv) the selection of the beneficial owners of the Bonds to receive payment in the event of any partial redemption of the Bonds; or (v) any other action taken by the Securities Depository or any Depository Participant.

Bond certificates are required to be delivered and registered in the name of the beneficial owner of the Bonds, under the following circumstances: (a) a Securities Depository determines to discontinue providing its service with respect to the Bonds and no successor Securities Depository is appointed as described above; or (b) the Board determines not to continue the Book-Entry System through a Securities Depository.

If, at any time, the Securities Depository ceases to hold the Bonds, thereafter all references in the Resolution to the Securities Depository will be of no further force or effect.

Neither the Board nor the Paying Agent/Registrar will have any responsibility or obligation to any Depository Participant for the Book-Entry System or to the beneficial owners of the Bonds with respect to the records delivered to the Board and the Paying Agent/Registrar in order to accomplish the delivery and registration in the names of the beneficial owners of the Bonds.

**Cancellation.** All Bonds paid or redeemed before scheduled maturity in accordance with the Resolution, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance with the Resolution, will be canceled and proper records made regarding such payment, redemption, exchange, or replacement.

The Paying Agent/Registrar will destroy such canceled Bonds and periodically furnish the Board with certificates of destruction of such Bonds.

***Replacement Bonds.***

- (a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar will authenticate and deliver in exchange therefor a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously Outstanding. The Board or the Paying Agent/Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.
- (b) If any Bond is lost, apparently destroyed, or wrongfully taken, the Board, pursuant to the applicable laws of the State and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, will authorize, and the Paying Agent/Registrar will deliver, a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously Outstanding, provided that the Owner first:
  - (i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond;
  - (ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar and the Board to save them harmless;
  - (iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Paying Agent/Registrar and any tax or other governmental charge that is authorized to be imposed; and
  - (iv) satisfies any other reasonable requirements imposed by the Board or the Paying Agent/Registrar.
- (c) After the delivery of such replacement Bond, if a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the Board and the Paying Agent/Registrar will be entitled to recover such replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and will be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the Board or the Paying Agent/Registrar in connection therewith.
- (d) If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Board, in its discretion, instead of issuing a replacement Bond, may authorize the Paying Agent/Registrar to pay such Bond when it becomes due and payable.
- (e) Each replacement Bond delivered in accordance with the procedures described in this caption will be entitled to the benefits and security of the Resolution to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

**Book-Entry-Only System**

*This caption describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this caption concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The Board and the Financial Advisor believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

*The Board cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC participants, (2) DTC participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC participants are on file with DTC.*

DTC will act initially as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized

representative of DTC. One fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating: "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices will be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Board as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the Board or the Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form

or registered in “street name,” and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the Board, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Board or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Board or the Paying Agent/Registrar. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The Board may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Information concerning DTC and the book-entry-only system has been obtained from sources the Board believes to be reliable, but the Board takes no responsibility for the accuracy thereof, and it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Board, the Financial Advisor or the Initial Purchaser.

NONE OF THE BOARD, THE FINANCIAL ADVISOR OR THE INITIAL PURCHASER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE BENEFICIAL OWNERS IN RESPECT OF THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR ANY DTC PARTICIPANT; THE PAYMENT BY DTC OR ANY DTC PARTICIPANT OF ANY AMOUNT IN RESPECT OF THE PRINCIPAL OR REDEMPTION PRICE OF OR INTEREST ON THE BONDS; ANY NOTICE WHICH IS PERMITTED OR REQUIRED TO BE GIVEN TO BONDHOLDERS; THE SELECTION BY DTC OR ANY DTC PARTICIPANT OF ANY PERSON TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; OR ANY CONTEST GIVEN OR OTHER ACTION TAKEN BY DTC OR ANY DTC PARTICIPANT.

In reading this Official Statement it should be understood that while the Bonds are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Resolution will be given only to DTC.

### **Medium, Method and Place of Payment**

On or before each Interest Payment Date for the Bonds, there shall be made available to the Paying Agent/Registrar, out of the Interest and Sinking Fund, money sufficient to pay such principal of and interest on the Bonds as will accrue or mature on the applicable Interest Payment Date or date of prior redemption.

The principal of and interest on the Bonds will be paid in lawful money of the United States of America. Interest on the Bonds will be payable to the Owners as shown in the Register at the close of business on the Record Date. Principal and interest will be paid by check, dated as of the Interest Payment Date, and sent by first class mail, postage prepaid, by the Paying Agent/Registrar to each Owner at the address shown in the Register, or by such other customary banking arrangement, such as by wire transfer, acceptable to the Paying Agent/Registrar at the request of and at the risk and expense of the Owner. The principal of each Bond will be paid to the Owner thereof on the due date, whether at the maturity date or the date of prior redemption, only upon presentation and surrender of such Bond at the designated office of the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds is not a Business Day, the date for such payment will be the next succeeding Business Day, and payment on such date will for all purposes be deemed to have been made on the due date thereof, and no interest will accrue on such payments in the interim.

Unclaimed Payments that remain unclaimed by the Owners for 90 days after the applicable payment or redemption date will be segregated in a special escrow account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owners of the Bonds to which the Unclaimed Payments pertain. Unclaimed Payments remaining unclaimed by the Owners entitled thereto for three years after the applicable payment or redemption date will be reported and disposed of by the Paying Agent/Registrar in accordance with the applicable provisions of State law including, to the extent applicable, Title 6 of the Texas Property Code, as amended.

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is \_\_\_\_\_, at its office in \_\_\_\_\_. In the Resolution, the Board retains the right to replace the Paying Agent/Registrar for the Bonds. The Board covenants to maintain and provide a Paying Agent/Registrar for the Bonds at all times while the Bonds are Outstanding. If the Paying

Agent/Registrar resigns or otherwise ceases to serve as such, the Board will promptly appoint a replacement. The Paying Agent/Registrar for the Bonds shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of paying agent and registrar for the Bonds. The Board, upon not less than 30 days notice, reserves the right to terminate the appointment of the Paying Agent/Registrar for the Bonds by delivering to the Paying Agent/Registrar written notice of such termination. Promptly upon each change in the entity serving as Paying Agent/Registrar for the Bonds, the Board will cause notice of the change to be sent to each Owner of the Bonds by first class United States mail, postage prepaid, at the address shown in the Register, stating the effective date of the change and the name and mailing address of the replacement Paying Agent/Registrar for the Bonds.

## Defeasance

- (a) Any Bond and the interest thereon will be deemed to be paid, retired and no longer Outstanding (a “Defeased Bond”) within the meaning of the Resolution, except to the extent provided in clause (d) of this caption, when payment of the principal of such Bond, plus interest thereon to the due date (whether such due date be by reason of maturity or otherwise) either (i) will have been made or caused to be made in accordance with the terms thereof, or (ii) will have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar in accordance with an escrow agreement or other instrument (the “Future Escrow Agreement”) for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities (as defined under clause (c) below) that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been made by the Board with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds will have become due and payable. At such time as a Bond will be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon will no longer be secured by, payable from, or entitled to the benefits of, the funds on deposit in the Interest and Sinking Fund, as described under the caption “SELECTED PROVISIONS OF THE RESOLUTION—Funds,” and such principal and interest will be payable solely from such money or Defeasance Securities. Notwithstanding any other provision of the Resolution to the contrary, any determination not to redeem Defeased Bonds that is made in conjunction with the payment arrangements specified in clause (a)(i) or (ii) of this caption will not be irrevocable, provided that: (1) in the proceedings providing for such payment arrangements, the Board expressly reserves the right to call the Defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the Defeased Bonds immediately following the making of the payment arrangements; and (3) directs that notice of the reservation be included in any redemption notices that it authorizes.
- (b) Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the Board be invested in Defeasance Securities, maturing in the amounts and times as set forth above, and all income from such Defeasance Securities received by the Paying Agent/Registrar that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be turned over to the Board, or deposited as directed in writing by the Board. Any Future Escrow Agreement pursuant to which the money and/or Defeasance Securities are held for the payment of Defeased Bonds may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of the requirements specified in clause (a)(i) or (ii) of this caption. All income from such Defeasance Securities received by the Paying Agent/Registrar which is not required for the payment of the Defeased Bonds, with respect to which such money has been so deposited, will be remitted to the Board or deposited as directed in writing by the Board.
- (c) The term “Defeasance Securities” means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and (iv) any other then authorized securities or obligations under applicable State law in existence on the date the Board adopts or approves any proceedings authorizing the financial arrangements that may be used to defease

obligations such as the Bonds. Because the Resolution provides that securities or obligations that may be authorized under future State law may also be used to defease Bonds, registered owners are deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities or any other Defeasance Securities that may be used to defease Bonds as described in this section will be maintained at any particular rating category.

- (d) Until all Defeased Bonds will have become due and payable, the Paying Agent/Registrar will perform the services of Paying Agent/Registrar for such Defeased Bonds the same as if they had not been defeased, and the Board will make proper arrangements to provide and pay for such services as required by the Resolution.
- (e) In the event that the Board elects to defease less than all of the principal amount of Bonds of a maturity, the Paying Agent/Registrar will select, or cause to be selected, such amount of Bonds by such random method as it deems fair and appropriate.
- (f) Notwithstanding any provision of the foregoing to the contrary, (i) the Board may provide for the irrevocable deposit required by this caption to be made with the Paying Agent/Registrar or with any other eligible bank or trust company then authorized by State law, and (ii) the Board may reserve the right to call any Defeased Bonds for redemption to the extent permitted and in the manner required by law.

## **SECURITY AND SOURCES OF PAYMENT FOR THE BONDS**

### **General Obligation Pledge**

THE BONDS ARE GENERAL OBLIGATIONS OF THE STATE PURSUANT TO THE CONSTITUTION OF THE STATE AND ARE SECURED BY THE FULL FAITH AND CREDIT OF THE STATE. For a discussion of the State's general and economic information, see APPENDIX A hereto and see "OTHER RELEVANT INFORMATION—General Information Regarding the State of Texas" herein.

The Constitutional Provision provides that while any of the Bonds and the Previously Issued Bonds or interest on the Bonds and the Previously Issued Bonds are outstanding and unpaid, there is appropriated out of the first money coming into the State Treasury in each Fiscal Year, not otherwise appropriated by the State Constitution, the amount sufficient to pay the principal of and interest on the Bonds and the Previously Issued Bonds that mature or become due during the Fiscal Year, less any amount in the Interest and Sinking Fund at the end of the preceding Fiscal Year. Payment of the Bonds and the Previously Issued Bonds under the aforementioned constitutional appropriation is based upon a determination at the beginning of each Fiscal Year that the moneys on deposit in the Interest and Sinking Fund are sufficient to pay debt service on the Bonds and all Previously Issued Bonds for the ensuing Fiscal Year. If it is determined that such moneys are insufficient, the Board must present documentation to the Comptroller, and the Comptroller is required to (i) allocate available funds then on deposit in the Interest and Sinking Fund, to pay the principal of and interest on the Bonds and all Previously Issued Bonds which will become due during that Fiscal Year, and (ii) transfer into the Interest and Sinking Fund out of the first money coming into the State Treasury in that Fiscal Year not otherwise appropriated by the State Constitution, an amount sufficient to pay the debt service anticipated to be due on the Bonds and Previously Issued Bonds in the ensuing Fiscal Year. See "SELECTED PROVISIONS OF THE RESOLUTION—Funds" herein. The Board has never defaulted on its obligation to pay the principal of or interest on its State of Texas College Student Loan Bonds. Historically, the Board's ongoing student loan programs have provided funds through the repayment of student loans and investment interest in amounts sufficient to meet debt service and reserve requirements and to pay administrative costs of the student loan programs without drawing on the State's General Revenue Fund.

Pursuant to Section 49-j of Article III of the State Constitution (adopted on November 4, 1997), the State Legislature is prohibited from authorizing additional State debt payable from the State's General Revenue Fund if the resulting annual debt service exceeds five percent of an amount equal to the average of the amount of General Revenue Fund revenues, excluding revenues constitutionally dedicated for purposes other than payment of State debt, for the three preceding fiscal years. See "STATE DEBT—Recent Developments Affecting State Debt" and "—Selected Data Concerning State Debt" in the information referred to in APPENDIX A hereto. For purposes of such limitation, "State debt payable from the State's General Revenue Fund" does not include bonds that, although backed by the full faith or credit of the State, are reasonably expected to be paid from other revenue sources and that are not expected to create a general revenue draw. As discussed below, the Board anticipates that debt service on the Bonds will be self-supporting, and thus, the Bonds will not be subject to this limitation. Notwithstanding this limitation on the ability of the State Legislature to authorize additional State debt, the Bonds are general obligations of the State, as described above, and are payable from the sources described under this caption.



## **Interest and Sinking Fund**

All student loans granted under the Act are made from moneys on deposit in the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund. See “—Other Funds Administered by the Board” herein. Pursuant to the Act, the Resolution and the resolutions of the Board authorizing the issuance of the Previously Issued Bonds, money received by the Board in each Fiscal Year as repayment of student loans granted under the Act and interest thereon must first be deposited in the Interest and Sinking Fund in an amount sufficient to pay the interest on and principal of Previously Issued Bonds, the Bonds and any Additional Bonds to become due during the ensuing Fiscal Year. Pursuant to the Resolution and the resolutions of the Board authorizing the issuance of the Previously Issued Bonds, money received by the Board in each Fiscal Year as repayment of student loans granted under the Act and interest thereon *in excess* of the amount required to be deposited in the Interest and Sinking Fund must be deposited in either the Student Loan Auxiliary Fund or the Texas Opportunity Plan Fund. See “—Other Funds Administered by the Board” herein.

Money in the Interest and Sinking Fund is pledged pursuant to the Resolution to secure payment of principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds, and shall be used only for the purpose of paying interest on and principal of the Bonds, the Previously Issued Bonds and any Additional Bonds, and for transferring to other funds and accounts established by the Board to comply with covenants related to maintaining the tax-exempt status of the Bonds, the Previously Issued Bonds and any Additional Bonds. In addition, the Board has reserved the right in the Resolution to enter into interest rate swap agreements and to pay the net amounts payable by the Board thereunder from moneys on deposit in the Interest and Sinking Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest Rate Swap Agreements” herein. For additional information with respect to the Interest and Sinking Fund, see “SELECTED PROVISIONS OF THE RESOLUTION—Interest and Sinking Fund” and Table 3 and Table 4 under “THE BOARD—Loan Demand and Financial Information” herein. Moneys in the Interest and Sinking Fund may be invested as described in “SELECTED PROVISIONS OF THE RESOLUTION—Funds—Investment of Funds.”

Pursuant to the Act, the Board is obligated from time to time to fix the interest rate to be charged for any student loan at a rate sufficient to pay the interest on outstanding State of Texas College Student Loan Bonds, any expenses incident to their issuance, sale and retirement, and all or a portion of the Board’s expenses related to the operation of the Board’s student loan programs authorized under the Act. The Board monitors the student loan repayments it receives from all outstanding loans made under the student loan programs authorized by the Act and changes the interest rates charged on new student loans from time to time in order to comply with such statutory obligation. For additional information with respect to the interest rates charged for the student loan programs authorized by the Act, see “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS.” Historically, the Board’s student loan programs have provided funds through the repayment of student loans and investment interest in amounts sufficient to meet debt service requirements and to pay direct expenses incurred by the Board in connection with the operation of its student loan programs without drawing on the State’s General Revenue Fund. No assurance, however, can be given that subsequent events, including, without limitation, changes in relevant constitutional or statutory provisions, will not cause the Board to draw on the State’s General Revenue Fund for the payment of debt service on the Bonds, the Previously Issued Bonds or any Additional Bonds.

## **Other Funds Administered by the Board**

In addition to the Interest and Sinking Fund, the Board also administers the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund, which are funds within the State Treasury. As further described below, all moneys on deposit in such Funds may be utilized only to make student loans and for other lawful purposes related to the student loan programs authorized by the Act. See “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS” hereto. The Act also authorizes the Board to transfer moneys between the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund if the transfer is approved by the Board and is necessary to administer such Funds. For certain financial information relating to the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund, see Table 3 and Table 4 under “THE BOARD—Loan Demand and Financial Information” herein.

***Student Loan Auxiliary Fund.*** Pursuant to amendments to the Act in 1991, the Student Loan Auxiliary Fund was established as a fund within the State Treasury, and the Board was required to begin depositing all proceeds of its State of Texas College Student Loan Bonds issued after such time in the Student Loan Auxiliary Fund to fund the student loan programs authorized by the Act. Pursuant to, and subject to certain exceptions contained in, the Resolution, proceeds of any Additional Bonds (other than Additional Bonds issued to refund outstanding State of Texas College Student Loan Bonds) must be deposited by the Board in the Student Loan Auxiliary Fund to fund the student loan programs authorized by the Act. See “SELECTED PROVISIONS OF THE RESOLUTION—Student Loan Auxiliary Fund” and “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS” herein.

In addition, the Board has provided in the Resolution (and in each Board resolution authorizing the issuance of Previously Issued Bonds issued after 1991) for the deposit into the Student Loan Auxiliary Fund of all money received in any Fiscal

Year from repayment of student loans granted under the Act which are made by the Board from funds on deposit in the Student Loan Auxiliary Fund, and interest thereon, which is *in excess* of the amount required to be deposited in the Interest and Sinking Fund (see “—Interest and Sinking Fund” above). The Resolution authorizes the Board to use such excess loan repayments on deposit in the Student Loan Auxiliary Fund to (i) make loans to students, (ii) pay administration and operating expenses, and fund any other lawful purpose, related to the Board’s student loan programs and (iii) to the extent permitted by law, transfer to the Interest and Sinking Fund in the event funds on deposit in the Interest and Sinking Fund are insufficient to pay principal of and interest on any of the Bonds, the Previously Issued Bonds and Additional Bonds. See “SELECTED PROVISIONS OF THE RESOLUTION—Funds—Student Loan Auxiliary Fund” herein. Moneys in the Student Loan Auxiliary Fund may be invested as described in “SELECTED PROVISIONS OF THE RESOLUTION—Funds—Investment of Funds.”

***Texas Opportunity Plan Fund.*** The Texas Opportunity Plan Fund was established as a fund within the State Treasury by Article III, Section 50b of the State Constitution (adopted on November 2, 1965). Prior to the establishment of the Student Loan Auxiliary Fund pursuant to amendments to the Act in 1991, the proceeds of the Board’s State of Texas College Student Loan Bonds were required by the Act to be deposited in the Texas Opportunity Plan Fund to fund the student loan programs authorized by the Act. Pursuant to a resolution adopted by the Board, the Board has provided for the deposit into the Texas Opportunity Plan Fund of all money received in any Fiscal Year from repayment of student loans granted under the Act which are made by the Board from funds on deposit in the Texas Opportunity Plan Fund, and interest thereon, which is *in excess* of the amount required to be deposited in the Interest and Sinking Fund (as described above under “—Interest and Sinking Fund”). Pursuant to such resolution, such excess loan repayments on deposit in the Texas Opportunity Plan Fund may be used for the same purposes for which excess loan repayments on deposit in the Student Loan Auxiliary Fund may be utilized, as described above in “—Student Loan Auxiliary Fund.” Moneys in the Texas Opportunity Plan Fund may be invested in the same types of investments in which moneys in the Student Loan Auxiliary Fund may be invested, as described above in “—Student Loan Auxiliary Fund.” See “SELECTED PROVISIONS OF THE RESOLUTION—Funds—Investment of Funds” herein.

### **Additional Bonds**

The Board has reserved the right in the Resolution and in each Board resolution authorizing the issuance of the Previously Issued Bonds to issue Additional Bonds from time to time, provided that the provisions for the issuance of such Additional Bonds will preserve the primary sources for the payment thereof and for the security thereof as set forth in the Constitutional Provision.

Section 50b-7 provides that the State Legislature may authorize the Board to issue additional general obligation bonds of the State to finance educational loans to students in the manner provided by the Act provided that the principal amount of outstanding bonds issued under Section 50b-7 may not at any time exceed \$1.86 billion, the aggregate principal amount of all State of Texas College Student Loan Bonds authorized by prior provisions of the State Constitution. The Board currently has four series of outstanding general obligation bonds issued under Section 50b-7 in the aggregate principal amount of \$416,970,000, excluding the Bonds.

Section 50b-7 enabled the State Legislature to authorize the Board to issue up to \$1.86 billion of additional general obligation bonds. However, the enabling legislation for Section 50b-7 enacted by the State Legislature in 2011 during the 82nd Legislature, Regular Session, amended the Act to require that all then outstanding general obligation bonds of the Board, regardless of which provision of the State Constitution such bonds were issued under, must be counted against the \$1.86 billion limit established by Section 50b-7. The Board currently has \$920,595,000 in aggregate principal amount of such general obligation bonds outstanding, excluding the Bonds. Accordingly, the Board is currently authorized by the Act to issue an additional \$939,405,000 in aggregate principal amount of general obligation bonds. Additionally, the Act, as so amended, does not contemplate the issuance of the remaining unissued principal amount of approximately \$275.5 million of State of Texas College Student Loan Bonds authorized by prior provisions of the State Constitution. The State Legislature may amend the Act at any time to increase the amount of such additional general obligation bonds that the Board may issue up to the amount contemplated by Section 50b-7 as well as the remaining unissued principal amount authorized by prior provisions of the State Constitution.

The Board is also authorized to issue State of Texas College Student Loan Bonds pursuant to Section 56.451 *et seq.* of the Texas Education Code and Article III, Section 50b-7 of the State Constitution as general obligations of the State for the purpose of funding the “Texas B-On-time loan program” (the “BOT Program”). Such BOT Program bonds would be payable from moneys on deposit in the “B-On-Time Student Loan Account” (the “BOT Account”) and repayments of BOT Program loans made from the proceeds of such BOT Program bonds. Pursuant to the Act, the Resolution and the resolutions of the Board authorizing the issuance of the Previously Issued Bonds, the Board may not repay such BOT Program bonds using moneys collected as repayment for student loans granted under the Act, and thus, such BOT Program bonds would not be payable from moneys on deposit in the Interest and Sinking Fund and would not be on a parity with the Bonds, the Previously Issued Bonds or any Additional Bonds. The State Legislature, during the 84th

Legislature, Regular Session, recently passed legislation that phases out the BOT Program, including the Board's authority to issue BOT Program bonds, in fiscal year 2020. To date, the Board has not issued any BOT Program bonds and has no current intention of issuing any such BOT Program bonds in the future. See "APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS" for a description of the BOT Program and the BOT Account.

The Act currently authorizes the Board to issue State of Texas College Student Loan Bonds in an amount not to exceed \$350 million per State fiscal year.

### **Interest Rate Swap Agreements**

The Board has reserved the right in the Resolution, to the extent permitted by law, to enter into one or more interest rate swap agreements in connection with its interest obligation on any Previously Issued Bonds, Bonds or Additional Bonds, and to pay the net amounts payable by the Board under any such interest rate swap agreement from moneys on deposit in the Interest and Sinking Fund. The net amounts received by the Board under any such interest rate swap agreement shall be deposited and applied in the same manner as repayments of student loans granted under the Act. See "SELECTED PROVISIONS OF THE RESOLUTION—Funds" herein. The Board is currently not a party to an interest rate swap agreement for the Bonds or the Previously Issued Bonds and does not currently intend to enter into any interest rate swap agreement with respect thereto, but the Board has the ability to enter into an interest rate swap agreement at any time.

### **SELECTED PROVISIONS OF THE RESOLUTION**

The following provisions are summaries of certain sections of the Resolution. These provisions do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Resolution; a copy of the Resolution may be obtained from the Board or its Financial Advisor.

### **Funds**

There have been created in the State Treasury two funds designated respectively:

1. "Student Loan Auxiliary Fund"; and
2. "State of Texas College Student Loan Bonds Interest and Sinking Fund", defined herein as the "Interest and Sinking Fund". The Interest and Sinking Fund constitutes the Interest and Sinking Fund for the Bonds, Previously Issued Bonds and any Additional Bonds hereafter issued by the Board which are payable from the same sources.

#### ***Student Loan Auxiliary Fund.***

- (a) There shall be deposited into the Student Loan Auxiliary Fund the following:
  - (i) except for any such proceeds used to pay costs of issuance or to fund any reserves, all proceeds from the sale of Additional Bonds (other than Additional Bonds issued to refund outstanding State of Texas College Student Loan Bonds) excluding any accrued interest on Additional Bonds which shall be deposited into the Interest and Sinking Fund;
  - (ii) gifts or grants made to the Board for purposes of the Student Loan Auxiliary Fund; and
  - (iii) all money received in any Fiscal Year from repayment of student loans granted under the Act which are made by the Board from funds on deposit in the Student Loan Auxiliary Fund, and interest thereon, which is in excess of the amount required to be deposited into the Interest and Sinking Fund pursuant to the provisions of the Resolution.
- (b) Money in the Student Loan Auxiliary Fund shall be used for the following purposes (provided, however, that in no event may funds deposited in the Student Loan Auxiliary Fund pursuant to clause (a)(i) above and, except as otherwise provided under Section 52.53 of the Act, clause (a)(ii) above, be used for a purpose described in clause (ii) below):
  - (i) to make loans to students as now or hereafter provided by the Constitution and laws of the State, particularly the Act;
  - (ii) to pay administration and operating expenses, and to fund any other lawful purpose, related to the Board's student loan program operated pursuant to the Act;

- (iii) to the extent permitted by law, including Subchapter F of the Act, to transfer funds to the Interest and Sinking Fund in the event funds on deposit in the Interest and Sinking Fund are insufficient to pay principal of and interest on any of the Bonds, Previously Issued Bonds and Additional Bonds; and
- (iv) to the extent permitted by law, including Subchapter F of the Act, to transfer to other funds and accounts established by the Board to comply with covenants related to maintaining the tax-exempt status of the Bonds, the Previously Issued Bonds and any Additional Bonds.

***Interest and Sinking Fund.***

- (a) There shall be deposited into the Interest and Sinking Fund the following:
  - (i) money received in each Fiscal Year as repayment of student loans granted under the Act and interest thereon sufficient to pay the interest on and principal of the Previously Issued Bonds, the Bonds and any Additional Bonds to become due during the ensuing Fiscal Year; provided, however, if permitted by law, the Board may reduce, in whole or in part, the amount required to be accumulated in the Interest and Sinking Fund to pay interest on and principal of the Previously Issued Bonds, the Bonds and any Additional Bonds to become due during the ensuing Fiscal Year; provided further that such action may not be exercised unless the Board has received written confirmation from each rating agency then maintaining a rating (at the request of the Board) on the Bonds, the Previously Issued Bonds and any Additional Bonds then outstanding that the exercise of such action will not cause a reduction or withdrawal of their respective ratings then applicable to any of the Bonds, Previously Issued Bonds or Additional Bonds and unless the Board has provided written notice of any such reduction to the Texas Bond Review Board. (See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest and Sinking Fund” herein);
  - (ii) money required by the Constitutional Provision and the Act to be transferred into the Interest and Sinking Fund by the Comptroller out of first moneys coming into the State Treasury in each Fiscal Year not otherwise appropriated by the State Constitution;
  - (iii) money transferred by the Board from the Student Loan Auxiliary Fund pursuant to clauses (b)(iii) and (b)(iv) under the caption “—Student Loan Auxiliary Fund” above; and
  - (iv) accrued interest on the Bonds, if any.
- (b) Money in the Interest and Sinking Fund is pledged pursuant to the Resolution to secure payment of principal of and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds, and shall be used only for the purpose of paying interest on and principal of the Bonds, the Previously Issued Bonds and any Additional Bonds, and for transferring to other funds and accounts established by the Board to comply with covenants related to maintaining the tax-exempt status of the Bonds, the Previously Issued Bonds and any Additional Bonds. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest and Sinking Fund” and “—Interest Rate Swap Agreements” herein.

***Provision for Payment of Bonds.***

- (a) The Board recognizes the absolute and ultimate obligation of the State to provide during each Fiscal Year all money necessary for the payment of the principal of and interest on the Bonds, the Previously Issued Bonds and all Additional Bonds when such interest or principal and interest become due, out of the first moneys coming into the State Treasury in each Fiscal Year not otherwise appropriated by the State Constitution, less any amount in the Interest and Sinking Fund at the end of the preceding Fiscal Year, as set forth in the Constitutional Provision.
- (b) All money received by the Board as principal and interest repayments of loans granted under the Act shall be deposited with the Comptroller in the Interest and Sinking Fund as received until the amount contained in said fund shall be sufficient to pay the principal and interest to become due on the Bonds, the Previously Issued Bonds and on any Additional Bonds during the ensuing Fiscal Year; provided, however, if permitted by law, the Board may reduce, in whole or in part, the amount required to be accumulated in the Interest and Sinking Fund to pay interest on and principal of the Previously Issued Bonds, the Bonds and any Additional Bonds to become due during the ensuing Fiscal Year; and provided further that such action described above may not be exercised unless the Board has received

written confirmation from each rating agency then maintaining a rating (at the request of the Board) on the Bonds, the Previously Issued Bonds and any Additional Bonds then outstanding that the exercise of such action will not cause a reduction or withdrawal of their respective ratings then applicable to any of the Bonds, Previously Issued Bonds or Additional Bonds and unless the Board has provided written notice of any such reduction to the Texas Bond Review Board. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest and Sinking Fund” and “—Interest Rate Swap Agreements” herein.

- (c) As early as possible in each Fiscal Year the Board shall cause to be furnished to the Comptroller a statement showing:
  - (i) the amount of money and investments in the Interest and Sinking Fund at the close of the preceding Fiscal Year;
  - (ii) the amount of interest or principal and interest which will become due during that Fiscal Year on the Bonds, the Previously Issued Bonds and the Additional Bonds; and
  - (iii) the amount of money, if any, which should be transferred to the Interest and Sinking Fund from the first money coming into the State Treasury in that Fiscal Year not otherwise appropriated by the State Constitution.

***Transfers to Interest and Sinking Fund.*** If the statement required by the foregoing caption shows that the amount of money and the value of investments contained in the Interest and Sinking Fund is less than the amount of interest or interest and principal scheduled to become due on the Bonds, the Previously Issued Bonds and the Additional Bonds during that Fiscal Year, the Comptroller shall (i) first allocate available funds then on deposit in the Interest and Sinking Fund the amount determined by the Board as described in clause (c)(iii) immediately above which will be required to pay the principal and interest on the Bonds, the Previously Issued Bonds and any Additional Bonds which will become due during that Fiscal Year, and (ii) second, transfer into the Interest and Sinking Fund out of the first money coming into the State Treasury in that Fiscal Year, not otherwise appropriated by the State Constitution, such additional amount as shall be required to pay the interest or interest and principal of the Bonds, the Previously Issued Bonds, and Additional Bonds maturing and coming due during that Fiscal Year. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest and Sinking Fund” and “—Interest Rate Swap Agreements” herein.

***Preparation of Vouchers and Issuance of Warrants for Debt Service.***

- (a) Prior to each interest payment date and/or maturity date while any of the Bonds, the Previously Issued Bonds or Additional Bonds remain outstanding or interest is due thereon, it shall be the duty of the officers and employees of the Board to prepare or cause to be prepared and to file with the Comptroller a voucher (or other instrument required by the Comptroller) showing the amount of money required to pay the principal of and interest on all such bonds then to become due. Such voucher shall specify the paying agent to which remittance is to be made, and shall direct that a warrant or warrants for such amount or amounts be issued, payable to the order of such paying agent.
- (b) Based on each such voucher it shall be the duty of the Comptroller after the filing with him or her of such voucher, to draw on the State Treasury a proper warrant in the amount shown in such voucher, payable to the order of the paying agent specified in the voucher. Such warrant shall be drawn against the Interest and Sinking Fund. The Comptroller shall forward the warrant to the principal office of the paying agent specified in the voucher. Such warrant shall be forwarded, so as to allow ample time for conversion of the warrant into current funds by the paying agent specified in the voucher by such principal and interest payment date.

The Comptroller’s current practice is to remit moneys via electronic wire transfer.

***Investment of Funds.***

- (a) No proceeds of the Bonds (or repayments of student loans in excess of the amount required to be deposited in the Interest and Sinking Fund) deposited to the Student Loan Auxiliary Fund for a period longer than six months (or, in the case of repayments, three months) will be invested in obligations with a yield materially higher than the yield on the Bonds.
- (b) The Comptroller, at the direction of the Board (or the Commissioner, as authorized in the Resolution as described below), may sell any investments owned in the Interest and Sinking Fund or in the Student Loan Auxiliary Fund at the prevailing market price. Except as may otherwise be required by the

Resolution with respect to compliance with the rebate covenant therein described, income from such investments shall be deposited into the Interest and Sinking Fund.

- (c) Except as described in paragraph (a) above, all moneys in the Interest and Sinking Fund and in the Student Loan Auxiliary Fund in excess of the amount necessary for student loans shall be invested by the Comptroller in any investments authorized pursuant to (1) Chapter 2256, Texas Government Code, as amended, (2) Section 404.024 of the Texas Government Code, as amended, or (3) any other statute which describes the types of investments in which the Comptroller, the Board or any other agency of the State may invest its funds; provided, all such investments shall be scheduled to mature prior to the date such moneys must be available for use for its intended purpose. The Board has delegated to the Commissioner and other officers and employees of the Board the authority to take any action necessary to comply with the foregoing provisions of the Resolution (and any other provision of the Resolution or of any Board resolution governing any Previously Issued Bonds with respect to the investment of moneys in the Interest and Sinking Fund, the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund), including, but not limited to, the authority to direct the Comptroller or the Comptroller's designee, pursuant to an agreement or otherwise, to invest such moneys in the investments authorized in the Resolution and in any Board resolution governing any Previously Issued Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Other Funds Administered by the Board" herein.

### **Covenants of the Board**

The Board has covenanted in the Resolution that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in the Resolution and in each Bond; the Board will promptly pay or cause to be paid the principal of and interest on each Bond on the dates and at the places and manner prescribed in such Bond; the Board will, at the times and in the manner prescribed by the Resolution, deposit or cause to be deposited the amounts of money specified by the Resolution; and the Board will not take any action or omit to take any action which, if taken or omitted, respectively, would adversely affect the excludability of interest on the Bonds from the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes.

The Board has covenanted in the Resolution that it will give prior written notice to S&P and Moody's of (i) any amendment to the Resolution, or (ii) redemption of all of the Outstanding Bonds.

### **Deposit and Transfer of Funds; Duties of Comptroller**

The Comptroller is authorized and directed to make the deposits and transfers required under all provisions of the Resolution and the Board's resolutions authorizing Previously Issued Bonds and Additional Bonds. The Comptroller is further authorized and directed to do all things necessary or convenient to make current funds available at the Paying Agent/Registrar to pay principal of and interest on all Bonds and Previously Issued Bonds as they mature, all in accordance with the respective authorizing resolutions.

### **Amendments of and Supplements to the Resolution**

***Without Consent of Owners.*** Without notice to or the consent of any Owner, the Board may, at any time, amend the Resolution to cure any ambiguity or cure, correct or supplement any defective or inconsistent provision contained in the Resolution or make any other change that does not in the opinion of bond counsel for the Board, in any respect, materially and adversely affect the interests of the Owners. Without limiting the foregoing, the Board may amend or supplement the Resolution without notice to or the consent of any Owner:

- (a) to modify the Resolution or the Bonds to permit qualification under the Trust Indenture Act of 1939, as amended, or any similar federal statute at the time in effect, or to permit the qualification of the Bonds for sale under the securities laws of any state of the United States;
- (b) to authorize different authorized denominations of the Bonds and to make correlative amendments and modifications to the Resolution regarding exchangeability of Bonds of different authorized denominations, redemptions of portions of Bonds of particular authorized denominations and similar amendments and modifications of a technical nature;
- (c) to increase or decrease the number of days specified for the giving of notices in the Resolution and to make corresponding changes to the period for notice of redemption of the Bonds provided that no decreases in any such number of days shall become effective until 30 days after the Paying Agent/Registrar has given notice to the Owners of the Bonds; or

- (d) to provide for an uncertificated system of registering the Bonds or to provide for the change to or from a Book-Entry System for the Bonds.

***With Consent of Owners.*** If an amendment of or supplement to the Resolution or the Bonds without any consent of Owners is not permitted by the preceding caption, the Board may enter into such amendment or supplement without prior notice to any Owners but with the consent of the Owners of at least a majority in principal amount of all the Bonds then Outstanding under the Resolution. However, nothing contained in the Resolution shall permit or be construed to permit the amendment of, without the consent of each Owner: affected thereby, or supplement to the terms and conditions in the Resolution, so as to:

- (a) change the sinking fund requirements, if any, Interest Payment Dates, rights to tender or the maturity or maturities of the Outstanding Bonds;
- (b) reduce the rate of interest borne by any of the Outstanding Bonds;
- (c) reduce the amount of the principal or purchase price of or premium, if any, payable on the Outstanding Bonds;
- (d) modify the terms of payment of principal or purchase price of, premium, if any, or interest on the Outstanding Bonds, or impose any conditions with respect to such payments;
- (e) affect the rights of the Owners of fewer than all of the Outstanding Bonds; or
- (f) decrease the minimum percentage of the principal amount of Outstanding Bonds necessary for consent to any such amendment.

In addition, if moneys or investments have been deposited or set aside with the Paying Agent/Registrar pursuant to the Resolution for the payment of Bonds and those Bonds shall not have in fact been actually paid in full, no amendment to the provisions of the Resolution providing for the depositing or setting aside of such moneys or investments shall be made without the consent of the Owner of each of those Bonds affected.

***Effect of Consents.*** Any consent received pursuant to the provisions described in the immediately preceding caption will bind each Owner delivering such consent and each subsequent Owner of a Bond or portion of a Bond evidencing the same debt as the consenting Owner's Bond.

## **THE BOARD**

### **General**

The Board is a state agency created and organized pursuant to the State Constitution and the Texas Education Code. The Board currently consists of nine voting members appointed by the Governor to provide representation from all areas of the State, with the advice and consent of the State Senate. The Governor appoints members for six-year terms. No member of the Board may be employed professionally for remuneration in the field of education during the term of office. The Chair and Vice Chair of the Board are designated by the Governor and the Board appoints a Secretary. Members of the Board serve without pay but are reimbursed for actual expenses incurred in attending meetings of the Board or in performing other work of the Board when such work is approved by the Chair of the Board. Minutes of all meetings of the Board are available in the Board's office in Austin, Texas for public inspection. In addition to its student loan programs, the Board has substantial duties and powers relating to public and private institutions of higher education in the State.

### **Sunset Review of the Board**

In 1977, the State Legislature enacted the Texas Sunset Act (Chapter 325, Texas Government Code, as amended), which provides that virtually all agencies of the State, including the Board, are subject to periodic review of the Legislature and that each agency subject to sunset review will be abolished unless the Legislature specifically determines to continue its existence. The next sunset review of the Board is scheduled to occur during the regular Texas legislative session in 2025. If the Board is not continued in existence at that time, the Board will cease to exist as of September 1, 2025; however, the Texas Sunset Act provides that the Board will exist until September 1 of the following year (September 1, 2026) in order to conclude its business. In the event the Board is abolished pursuant to the Texas Sunset Act, the Governor is required to designate an appropriate State agency to carry out the Board's covenants contained in the Bonds and in the Resolution.

## **Loan Demand and Financial Information**

The Board administers various student loan programs authorized by the Act and other provisions of the Texas Education Code. Such loan programs may be funded with the proceeds of State of Texas College Student Loan Bonds and certain other moneys on deposit in the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Other Funds Administered by the Board” herein. Such loan programs authorized by the Act include State loan programs that are not guaranteed by either the State or the federal government and federally insured loan programs.

As a result of a change in federal law, effective June 30, 2010, the Board is no longer permitted to originate any new loans under any federally insured loan program authorized by the Act. The Board does not, however, expect that such change in law will adversely affect the State loan programs administered by the Board pursuant to the Act or the Board’s ability to pay debt service on the Bonds or any Previously Issued Bonds. For the Fiscal Year ending August 31, 2010, the Board originated approximately \$1.8 million in aggregate principal amount of federally insured loans, which represents approximately 1.4% of the total principal amount of student loans originated by the Board under all loan programs authorized by the Act during such Fiscal Year. As of August 31, 2016, approximately \_\_% of the Board’s total student loan principal receivable balance consists of loans made under federally insured loan programs authorized by the Act. See footnote 3 to Table 4.

The BOT Program, which began in Fiscal Year 2003, is one of the non-guaranteed State loan programs administered by the Board. BOT Program loans bear no interest and the entire loan amount will be forgiven if upon graduation the student meets specified goals relating to efficiency and academic success. If the student does not meet such specified goals upon graduation, the BOT Program loan continues to bear no interest but the student must repay the principal amount thereof. BOT Program loans may be funded from (i) the proceeds of State of Texas College Student Loan Bonds that are designated for such purpose, (ii) moneys in the BOT Account, and (ii) certain excess loan repayments on deposit in the Student Loan Auxiliary Fund. The State Legislature, during the 84th Legislature, Regular Session, recently passed legislation that phases out the BOT Program in fiscal year 2020. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS— Other Funds Administered by the Board—Student Loan Auxiliary Fund,” “– Additional Bonds” and “APPENDIX C – SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS.” Pursuant to the Act, the original proceeds of the Bonds to be deposited in the Student Loan Auxiliary Fund may not be used to fund the BOT Program. For a description of the outstanding principal amount of BOT Program loans as of August 31, 2016 and August 31, 2015 that were made from certain excess loan repayments on deposit in the Student Loan Auxiliary Fund, see footnote 2 to Table 4 herein.

As described in “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Interest and Sinking Fund,” historically, the Board has not relied on general revenue or general revenue-dedicated funds of the State to fund any direct expenses incurred by the Board in connection with its operation of the student loan programs authorized by the Act or to meet debt service requirements. The Act currently requires that the Board from time to time fix the interest rate to be charged for any student loan authorized by the Act at a rate sufficient to pay the interest on outstanding State of Texas College Student Loan Bonds, any expenses incident to their issuance, sale and retirement, and all or a portion of the Board’s expenses related to the operation of the student loan programs authorized by the Act.

Set forth below is certain financial information and estimates relating to the student loan programs administered by the Board. See “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS” for a description of such loan programs. Historical data and trends presented below are not intended to predict future events or continuing trends, and no representation is made that past experience will continue in the future. No assurance can be provided that revenues from the Board’s student loan programs will be sufficient to pay the debt service on the Bonds or any Previously Issued Bonds, or to fund the direct expenses incurred by the Board in connection with its operation of the student loan programs authorized by the Act. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS” and “OTHER RELEVANT INFORMATION—Forward-Looking Statements” herein.

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**Table 1 – Estimated Loan Demand Allocations<sup>(1)</sup>**

<u>August 31, 2017</u>			
<u>Number</u>	<u>Type of Institution</u>	<u>Amount</u>	<u>Number of Loans</u>
	Public Senior Colleges and Universities		
	Independent Senior Colleges and Universities		
	Public Community Colleges		
	Health Science Centers		
	Alternative Teacher Certification Centers		
	Public Technical Colleges		
	Totals	\$ (1)	

<sup>(1)</sup> Amounts represent the Board's student loan allocations provided to all eligible educational institutions in the State prior to the commencement of the Fiscal Year ending 2017. Based upon the actual principal amount of loans made by the Board through September 30, 2016, the Board estimates that approximately \$\_\_\_\_\_ million in aggregate principal amount of student loans will be made by the Board for the Fiscal Year ending August 31, 2017. The Board estimates all student loans to be made by the Board during the Fiscal Year ending August 31, 2017 will consist of loans to be made under the College Access Loan (CAL) Program. CAL loans are not guaranteed by either the State or the federal government. For a description of the Board's various student loan programs, including the CAL Program, see "APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS." See also, "OTHER RELEVANT INFORMATION—Forward-Looking Statements" herein.

Source: Texas Higher Education Coordinating Board.

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**Table 2 – Historical Loan Disbursements (Unaudited)<sup>(1)</sup>**

Academic <u>Year</u>	<u>Amount</u>	Number of <u>Loans<sup>(4)</sup></u>	Average <u>Loan<sup>(4)</sup></u>	Number of <u>Students</u>	Average <u>Borrowed</u>
2007 <sup>(2)</sup>	\$ 95,816,418	23,288	\$ 4,114	16,682	\$ 6,446
2008 <sup>(3)</sup>	97,825,142	12,174	8,036	9,727	10,057
2009	86,788,588	10,570	8,211	8,662	10,019
2010	74,953,988	9,033	8,298	7,648	9,800
2011	101,547,713	10,564	9,613	8,684	11,694
2012	104,563,240	10,224	10,227	8,548	12,232
2013	100,700,154	9,402	10,711	8,096	12,438
2014	99,013,129	8,747	11,320	7,528	13,153
2015	118,969,569	10,669	11,151	9,080	13,102
2016					

- <sup>(1)</sup> Unaudited, based on Fiscal Year ending August 31. The foregoing table represents all student loans authorized by the Act that were made by the Board for each of the Fiscal Years indicated from moneys on deposit in the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Other Funds Administered by the Board” and “OTHER RELEVANT INFORMATION—Board Financial Information” herein.
- <sup>(2)</sup> During Fiscal Years 2004-2007, inclusive, the Board made approximately \$67.8 million in aggregate principal amount of BOT Program loans from certain excess loan repayments on deposit in the Student Loan Auxiliary Fund. Numbers shown include such BOT Program loans made from such moneys on deposit in the Student Loan Auxiliary Fund during the respective Fiscal Year. See footnote 2 to Table 4 herein for a description of the outstanding principal amount of BOT Program loans as of August 31, 2016 and August 31, 2015, which were originated from such moneys. See also, “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS.”
- <sup>(3)</sup> During Fiscal Year 2008, the Board made BOT Program loans in the approximate aggregate principal amount of \$18.04 million from certain excess loan repayments on deposit in the Student Loan Auxiliary Fund; numbers shown for Fiscal Year 2008 include such BOT Program loans. All such BOT Program loans were transferred to the BOT Account subsequent to August 31, 2008 in exchange for cash. The Board does not presently intend to make additional BOT Program loans from such moneys on deposit in the Student Loan Auxiliary Fund. For a description of the BOT Program and the BOT Account, see “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS.”
- <sup>(4)</sup> During Fiscal Year 2007, the Board converted to a new student loan management system known as the Higher Education Loan Management (HELM) System. The previous loan management system utilized by the Board counted each disbursement to a borrower during an academic year as a separate loan, while the HELM System combines multiple disbursements made to a borrower during an academic year as a single loan.

Source: Texas Higher Education Coordinating Board.

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**Table 3 - Loan Program Cash Flows (Unaudited)<sup>(1)</sup>**

	<u>Fiscal year</u> (in millions)								
	<u>2017<sup>(2)</sup></u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Beginning Balance			\$248.7	\$214.8	\$304.0	\$298.0	\$272.2	\$251.0	\$316.4
Bond Proceeds			81.0	127.1	-	99.5	125.0	124.0	75.0
Loan Repayments			120.9	110.1	107.7	103.0	93.4	81.5	78.3
Investment Earnings			1.1	1.0	1.0	1.2	1.6	2.3	6.5
Lender's Fees			<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.2</u>	<u>0.2</u>
Available Funds			<u>\$451.7</u>	<u>\$453.0</u>	<u>\$412.7</u>	<u>\$501.7</u>	<u>\$492.2</u>	<u>\$459.0</u>	<u>\$476.4</u>
Cash Disbursed for:									
Loans			\$124.5	\$101.1	\$93.4	\$96.1	\$94.2	\$78.4	\$81.6
Debt Service			96.1	93.4	93.9	91.0	91.1	98.5	132.6
Lender's Expenses <sup>(3)</sup>			<u>10.2</u>	<u>9.8</u>	<u>10.6</u>	<u>10.6</u>	<u>8.9</u>	<u>9.9</u>	<u>11.2</u>
Total Expenditures			<u>\$230.8</u>	<u>\$204.3</u>	<u>\$197.9</u>	<u>\$197.7</u>	<u>\$194.2</u>	<u>\$186.8</u>	<u>\$225.4</u>
Ending Balance			<u>\$220.9</u>	<u>\$248.7</u>	<u>\$214.8</u>	<u>\$304.0</u>	<u>\$298.0</u>	<u>\$272.2</u>	<u>\$251.0</u>

(1) Unaudited, based on Fiscal Year ending August 31. The foregoing table represents combined net cashflows for the Interest and Sinking Fund, the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund for each of the Fiscal Years indicated. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest and Sinking Fund," "—Other Funds Administered by the Board" and "OTHER RELEVANT INFORMATION—Board Financial Information" herein.

(2) Estimated. See "OTHER RELEVANT INFORMATION—Forward-Looking Statements" herein.

(3) Amounts shown for Lender's Expenses include administration and operating expenses of the Board related to its student loan programs.

Source: Texas Higher Education Coordinating Board.

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**Table 4 – Cash and Loan Principal & Interest Receivable Balances as of August 31, 2016 and August 31, 2015 (Unaudited)<sup>(1)</sup>**

	<b><u>Fiscal Year Ended August 31, 2016</u></b>	<b><u>Fiscal Year Ended August 31, 2015</u></b>
Cash Balances		
Interest and Sinking Fund		\$117,853,810
Student Loan Auxiliary Fund		49,127,185
Texas Opportunity Plan Fund		<u>53,916,727</u>
Total Cash Balance		\$220,897,722
Aggregate Student Loan Principal & Interest Receivable Balance <sup>(2)(3)</sup>		\$1,182,753,618
Less: Allowance for Doubtful Accounts <sup>(4)</sup>		<u>(182,868,889)</u>
Net Student Loan Principal & Interest Receivable Balance		\$999,884,729

(1) Unaudited. Such financial information was derived from the Board’s Unaudited Financial Report for the Fiscal Year ended August 31, 2016 and August 31, 2015, respectively. For a description of the authorized uses of moneys on deposit in the Interest and Sinking Fund, the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund, see “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Interest and Sinking Fund” and “—Other Funds Administered by the Board”. See also, “OTHER RELEVANT INFORMATION—Board Financial Information” herein.

(2) Represents the aggregate student loan principal and interest receivable balance as of August 31, 2016 and August 31, 2015, respectively, accounted for by the Board in the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Other Funds Administered by the Board” herein. Includes approximately \$\_\_\_ million and \$8.8 million in outstanding principal amount of BOT Program loans as of August 31, 2016 and August 31, 2015, respectively, that were originated from certain excess loan repayments on deposit in the Student Loan Auxiliary Fund. For a description of the BOT Program, see “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS” herein.

(3) As of August 31, 2016, approximately 99% of the total student loan principal receivable balance consists of loans made under various State loan programs authorized by the Act, none of which are guaranteed by either the State or the federal government, and approximately 1% of such total student loan principal receivable balance consists of loans made under federally insured loan programs authorized by the Act. For a description of the Board’s various student loan programs, see “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS.”

(4) The allowance for doubtful accounts in this Table 4 is based on three criteria: a real time determination of the portfolio default rate, an analysis of historical trends, and an assessment by Board staff of any significant economic changes that would positively or negatively impact the predicted repayment performance of student loan receivables. BOT Program loans are accounted for by the Board at 100% of the principal amount thereof, with a corresponding allowance for doubtful accounts equal to 30% of the principal amount thereof (because BOT Program loans may be forgiven if certain conditions are satisfied) plus 5.0% of the remaining principal amount for potentially uncollectible amounts.

Source: Texas Higher Education Coordinating Board.

The Board reports a cumulative, life-of-the-program, default rate to the Texas Legislative Budget Board each quarter for all loans extended under the Board’s student loan programs. This historic rate is approximately \_\_\_% as of August 31, 2016, and is determined by dividing the principal and accrued interest amounts of all loans that have ever been, by their terms, in default, by the total principal and accrued interest amounts of every loan disbursed by the board since the inception of the loan program in 1965. For a description of the default terms of the Board’s student loan programs, see “APPENDIX C—SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS.”

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***Table 5 - Debt Service Requirements***

<b>Fiscal Year Ending 8/31</b>	<b>Previously Issued Bonds</b>			<b>The Bonds</b>			<b>Total Outstanding Debt Service</b>
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>	
2017							
2018							
2019							
2020							
2021							
2022							
2023							
2024							
2025							
2026							
2027							
2028							
2029							
2030							
2031							
2032							
2033							
2034							
2035							
2036							
2037							
<u>Total</u>							

Totals may not add due to rounding.

## **TAX MATTERS**

### **Opinion**

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin and Dallas, Texas, and Mahomes Bolden PC, Dallas, Texas, Co-Bond Counsel to the Board, will render their opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), for federal income tax purposes, interest on the Bonds will be excludable from the "gross income" of the holders thereof. Co-Bond Counsel's opinion will note that interest on the Bonds is an item of tax preference, as defined in section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"), for purposes of determining the alternative minimum tax imposed on individuals and corporations by section 55 of the Code. Except as stated above, Co-Bond Counsel to the Board will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See "APPENDIX D—Form of Opinion of Co-Bond Counsel".

In rendering the foregoing opinion, Co-Bond Counsel to the Board will rely upon representations and certifications of the Board made in a certificate delivered on the date the Bonds are delivered to the Initial Purchaser pertaining to the use, expenditure, and investment of the proceeds of the Bonds and has assumed continuing compliance with the provisions of the Resolution by the Board subsequent to the issuance of the Bonds. The Resolution contains covenants by the Board with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Co-Bond Counsel's opinion represents their legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Co-Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Board with respect to the Bonds. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Co-Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Board as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under existing law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under existing law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

### **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

## **State, Local and Foreign Taxes**

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Resolution, the Board has made the following agreement for the benefit of the Owners and Beneficial Owners of the Bonds. The Board is required to observe the agreement for so long as it remains an “obligated person” with respect to the Bonds within the meaning of the Rule. Under the agreement, the Board will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available to the public at no charge using the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access System (“EMMA”) via the MSRB’s internet website, [www.emma.msrb.org](http://www.emma.msrb.org).

## **Annual Reports**

The Board will provide annually to the MSRB, in an electronic format as prescribed by the MSRB, within six months after the end of each Fiscal Year, certain financial information and operating data with respect to the Board of the general type included in this Official Statement under the Tables numbered 2 through 5, together with audited financial statements of the Board for such Fiscal Year if the Board commissions an audit of such statements and the audit is completed within the period during which they must be provided; provided, however, if the Board commissions an audit of such statements and the audit is not completed within the period during which they must be provided, such audited financial statements shall be delivered to the MSRB, in an electronic format as prescribed by the MSRB, when and if they become available. Any financial information or audited financial statements so to be provided will be prepared in accordance with generally accepted accounting principles for governmental entities or such other accounting principles as the Board may be required to employ from time to time pursuant to State law or regulation.

If the Board changes its Fiscal Year, it will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this caption.

The financial information and operating data to be provided pursuant to this caption may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet website or filed with the SEC.

## **Event Notices**

As used in this “Event Notices” caption, the term “obligated person” shall mean any person, including the Board, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all or part of the obligations on the Bonds (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities). The Board will notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Bonds:

1. principal and interest payment delinquencies;
2. non-payment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. modifications to rights of the holders of the Bonds, if material;



8. bond calls, if material, and tender offers;
9. defeasances;
10. release, substitution, or sale of property securing repayment of the Bonds, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership or similar event of the obligated person;

Note to paragraph 12.: For the purposes of the event identified in paragraph 12 of this caption, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

13. the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

14. appointment of successor or additional trustee or the change of name of a trustee, if material.

Neither the Bonds nor the Resolution make any provision for a debt service reserve or credit enhancement. In addition, the Board will provide timely notice to the MSRB of any failure by the Board to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports”.

### **Continuing Disclosure Undertaking of the Comptroller**

**General.** The Comptroller has entered into a Continuing Disclosure Agreement with the Bond Review Board dated as of August 17, 1995 and amended January 25, 2010 (the “Continuing Disclosure Agreement”). The Board and the legal and beneficial owners of the Bonds are third-party beneficiaries of the Continuing Disclosure Agreement. The Comptroller is required to observe this agreement in respect of any issue of Securities (as defined in the Continuing Disclosure Agreement) for so long as the State remains an “obligated person”. Under the Continuing Disclosure Agreement, the Comptroller will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the MSRB.

In addition to the information that the Comptroller has agreed to provide annually as described below, the Comptroller currently prepares an updated disclosure appendix (the “Bond Appendix”) quarterly for use in State agency securities offerings. The Comptroller intends to continue to prepare or supplement the Bond Appendix quarterly and to provide annual information in accordance with the Continuing Disclosure Agreement.

Certain tables within the Bond Appendix, as currently prepared by the Comptroller, are updated on a quarterly basis while other tables within the Bond Appendix are updated on an annual basis. Under the Continuing Disclosure Agreement, the Comptroller is not obligated to provide such financial and operating data more frequently than on an annual basis.

**Annual Reports.** The Comptroller will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the State of the general type referred to in the Bond Appendix. The Comptroller will update and provide this information within 195 days after the end of each Fiscal Year.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s EMMA website or filed with the SEC, as permitted by the Rule. The updated information provided by the Comptroller will be provided on a cash basis and will not be audited, but the Comptroller will provide audited financial statements of the State prepared in accordance with generally accepted accounting principles for governmental entities when the State Auditor completes its statutorily required audit of such financial statements. The accounting principles pursuant to which such financial statements must be prepared may be changed from time to time to comply with State law.

The State's current fiscal year end is August 31. Accordingly, the Comptroller must provide updated information within 195 days thereof in each year unless the State changes its fiscal year. If the State changes its fiscal year, the Comptroller will notify the MSRB of the change prior to the next date by which the Comptroller otherwise would be required to provide financial information and operating data as described above.

**Event Notices.** The Comptroller will also provide timely notice of its failure to provide information, data, or financial statements in accordance with its Continuing Disclosure Agreement. Such notice will be provided to the MSRB.

### **Limitations and Amendments**

The Board and the Comptroller have agreed to update information and to provide notices of certain events only as described above. Neither has agreed to provide other information that may be relevant or material to a complete presentation of the Board's or the State's financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. Neither makes any representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. Each disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the Board and the Comptroller to comply with their agreements.

The Board may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law or a change in the identity, nature, status, or type of operations of the Board, but only if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering of the Bonds described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances and (ii) either (a) the Owners of a majority in aggregate principal amount of the Outstanding Bonds consent to such amendment or (b) a person unaffiliated with the Board (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the Owners and Beneficial Owners of the Bonds. If the Board so amends its agreement, the Board must include with the next financial information or operating data provided with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reason for the amendment and of the impact of any change in the type of financial information or operating data provided. The Board may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that such an amendment would not have prevented an underwriter from lawfully purchasing or selling Bonds in the offering of the Bonds described herein.

The Comptroller may amend the Continuing Disclosure Agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the State if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of outstanding Bonds consent to such amendment or (b) a person unaffiliated with the State, the Comptroller, the Bond Review Board and the Board (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Comptroller may also amend or repeal the provisions of the Continuing Disclosure Agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the Comptroller so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Continuing Disclosure Undertaking of the Comptroller—*Annual Reports*" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

### **Compliance with Prior Undertakings**

During the last five years, the Board has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

During the past five years, the Comptroller has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

## **OTHER RELEVANT INFORMATION**

### **Ratings**

The Bonds have received ratings of “Aaa” by Moody’s and “AAA” by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. Generally, rating companies base their ratings on information and materials obtained by, and on investigations and studies performed by, the rating companies. The ratings reflect only the respective views of such rating companies and the Board makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

### **Legal Opinions and No-Litigation Certificate**

The Board will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds have been issued in accordance with law and are valid and binding obligations of the Board, and based upon examination of such transcript of proceedings, the approving legal opinion of Co-Bond Counsel, whose approving opinion is expected to be in the form attached hereto as APPENDIX D.

McCall, Parkhurst & Horton L.L.P. (“McCall”) has been retained by the Board to serve as bond counsel to the Board. McCall has retained Mahomes Bolden PC (“Mahomes”) pursuant to a subcontract whereby McCall and Mahomes have agreed to assume joint responsibility in representing the Board as Co-Bond Counsel and McCall has agreed to pay a portion of the compensation received from the Board for the issuance of the Bonds to Mahomes. A portion of the fee to be paid to McCall by the Board is contingent upon the sale and delivery of the Bonds.

In connection with the transactions described in this Official Statement, Co-Bond Counsel represents only the Board. The customary closing papers, including a certificate of the Board to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Except as noted below, Co-Bond Counsel have not verified, and have not passed upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in this Official Statement. Co-Bond Counsel have, however, reviewed the statements contained in this Official Statement under the captions “SUMMARY STATEMENT,” “INTRODUCTION,” “PLAN OF FINANCE,” “THE BONDS” (but excluding the information set forth under the subheading “—Book-Entry-Only System”), “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS,” “SELECTED PROVISIONS OF THE RESOLUTION,” “CONTINUING DISCLOSURE OF INFORMATION” (but excluding the information set forth under the subheadings “—Continuing Disclosure Undertaking of the Comptroller” and “—Compliance with Prior Undertakings”), “OTHER RELEVANT INFORMATION—Legal Opinions and No-Litigation Certificate” (but excluding the information in the third and fourth paragraphs thereof) and “APPENDIX B—CERTAIN DEFINITIONS CONTAINED IN THE RESOLUTION,” and such firms are of the opinion that the information relating to the Bonds and the Resolution contained under such captions or appendix is a fair and accurate summary of the information purported to be shown therein. In addition, Co-Bond Counsel have reviewed the information under the captions “TAX MATTERS” and “OTHER RELEVANT INFORMATION—Legal Investments and Eligibility to Secure Public Funds in Texas,” and such firms are of the opinion that such information is correct as to matters of law and fairly and accurately presents the information therein.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

### **General Information Regarding the State of Texas**

The Comptroller prepares a quarterly appendix (the “Bond Appendix”) which sets forth certain information regarding the State including its government, finances, economic profile, and other matters for use by State entities when issuing debt. The most current Bond Appendix is dated November 2016 and is attached hereto as APPENDIX A. See “CONTINUING DISCLOSURE OF INFORMATION – Continuing Disclosure Undertaking of the Comptroller – *General*.” With respect to evaluating the ability of the State to make timely payment of debt service on the Bonds based on the information contained in the Bond Appendix, no representation is made that such information contains all factors material to such an evaluation or that any specific information should be accorded any particular significance. The Bond Appendix may be

obtained (i) using the MSRB's EMMA website, [www.emma.msrb.org](http://www.emma.msrb.org), by using the Quick Search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: <http://www.comptroller.texas.gov/programs/systems/treasury-ops/index.php#appendix>, until the Comptroller files a later version of such Bond Appendix.

The Texas 2015 Comprehensive Annual Financial Report for the year ended August 31, 2015 (the "2015 CAFR") is currently on file with the MSRB and may be obtained (i) using the MSRB's EMMA website, [www.emma.msrb.org](http://www.emma.msrb.org), by using the Quick Search function and entering the term "State of Texas Comptroller" and (ii) from the Comptroller's website at: <http://www.comptroller.texas.gov/transparency/reports/comprehensive-annual-financial/>. The 2015 CAFR is incorporated by reference and made a part of this Official Statement as if set forth herein.

Section 49-j of Article III of the State Constitution prohibits the State Legislature from authorizing additional State debt payable from general revenues, including authorized but unissued bonds and lease purchase contracts in excess of \$250,000, if the resulting annual debt service exceeds 5% of an amount equal to the average amount of general revenue for the three immediately preceding years, excluding revenues constitutionally dedicated for purposes other than payment of debt service. See APPENDIX A and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—General Obligation Pledge" herein.

### **Board Financial Information**

The Board maintains its financial records on the basis of a Fiscal Year ending August 31. The Board has provided certain unaudited financial information regarding the Board's historical student loan demand and regarding the Interest and Sinking Fund, the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund in Table 2, Table 3 and Table 4 under "THE BOARD—Loan Demand and Financial Information" herein. Such financial information (except for the estimated financial information shown in Table 3 for the Fiscal Year ending August 31, 2017) was derived from the Board's Unaudited Financial Reports and other unaudited financial information of the Board for the Fiscal Years indicated therein, and such financial information has been prepared in accordance with State requirements for State agencies and has been reviewed by the State Auditors as part of the reviews done in compiling the Comprehensive Annual Financial Report for the State. The scope of the agency reviews do not constitute overall agency audits and therefore the information is considered unaudited at the agency level.

Although all such financial information presented in this Official Statement is unaudited, the Board has commissioned an audit of its financial statements for the Fiscal Year ending August 31, 2016 to be performed by KPMG LLP. As described under "CONTINUING DISCLOSURE OF INFORMATION—Annual Reports" herein, the Resolution obligates the Board to file such audited financial statements with the MSRB, when and if such audited financial statements become available.

### **Authenticity of Financial Data and Other Information**

The financial data and other information contained herein have been obtained from the Board's records, the State's financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. The Texas Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended) provides that a municipality, a county, a public school district, a hospital district, a fresh water supply district, a district or authority created under Article III, Section 52(b)(1) or (2), or Article XVI, Section 59, of the State Constitution, any political subdivision, authority, public corporation, body politic or instrumentality of the State, a State agency or any nonprofit corporation acting on behalf of any of those entities may invest in the Bonds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The Board has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The Board has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **Financial Advisor**

The Board has retained FirstSouthwest, a Division of Hilltop Securities Inc. ("FirstSouthwest"), as financial advisor in connection with the issuance and sale of the Bonds. Although FirstSouthwest has assisted in the preparation of the Official Statement, FirstSouthwest is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness or fairness of the information contained in the Official Statement or any of the other legal documents, and further FirstSouthwest does not assume any responsibility for the information, covenants and representations with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies or rating agencies. FirstSouthwest's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

### **Initial Purchaser**

After requesting competitive bids for the Bonds, the Board, acting through the Commissioner of Higher Education, has accepted the bid of \_\_\_\_\_ (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of par plus a net original issue premium of \$ \_\_\_\_\_ less the Initial Purchaser's discount of \$ \_\_\_\_\_. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the Board to the Initial Purchaser. The Board has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

### **Updating the Official Statement During Underwriting Period**

If, subsequent to the date of this Official Statement to and including the date the Initial Purchaser is no longer required to provide an Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the "Rule") (the earlier of (i) 90 days from the "end of the underwriting period" (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the "end of the underwriting period"), the Board learns or is notified by the Initial Purchaser of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the Board will promptly prepare and supply to the Initial Purchaser a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Initial Purchaser, unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds as described in the Notice of Sale accompanying this Official Statement. The obligation of the Board to update or change the Official Statement will terminate when the Board delivers the Bonds to the Initial Purchaser (the "end of the underwriting period" within the meaning of the Rule), unless the Initial Purchaser provides written notice to the Board that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Bonds have been sold to ultimate customers. In the event the Initial Purchaser provides written notice to the Board that less than all of the Bonds have been sold to ultimate customers, the Initial Purchaser agrees to notify the Board in writing following the occurrence of the "end of the underwriting period" as defined in the Rule.

### **Certification as to Official Statement**

At the time of payment for and delivery of the Bonds, the Board will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the description and statements of or pertaining to the Board contained in this Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bids therefor, and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the Board and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the Board, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the Board believes to be reliable and the Board has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the Board since the date of the last financial statements of the Board.

At the time of payment for and delivery of the Bonds, the Board will be furnished a letter from the State, signed on behalf of the State by the Comptroller, upon which the Initial Purchaser will be authorized to rely, to the effect that (i) to the best of the Comptroller's knowledge and belief, APPENDIX A hereto is true and correct as of its date and it does not contain an untrue statement of a material fact or omit to state a material fact that would make the statements made therein, in light of the circumstances under which they are made, misleading, and (ii) the information therein has been obtained from sources which he believes to be reliable and (iii) the Comptroller has entered into a continuing disclosure agreement with the Texas Bond Review Board, for the benefit of the Board and the legal and beneficial owners of the Bonds, to provide, with respect to the State, updated financial information and operating data of the type referred to in APPENDIX A hereto and timely notice of certain material events. See "CONTINUING DISCLOSURE OF INFORMATION – Continuing Disclosure Undertaking of the Comptroller" herein.

### **Forward-Looking Statements**

The statements contained in this Official Statement, and in any other information provided by the Board, that are not purely historical, are forward-looking statements, including statements regarding the Board's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the Board on the date hereof, and the Board assumes no obligation to update any such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

The Resolution authorizing the issuance of the Bonds approved the form and content of this Official Statement and authorized any addenda, supplement or amendment hereto and its distribution in accordance with the provisions of the Rule.

TEXAS HIGHER EDUCATION COORDINATING BOARD

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Commissioner of Higher Education

**APPENDIX A**

THE STATE OF TEXAS  
GENERAL AND ECONOMIC INFORMATION

## **APPENDIX B**

### **CERTAIN DEFINITIONS CONTAINED IN THE RESOLUTION**

The following statements summarize certain defined terms contained in the Resolution. These statements do not purport to be comprehensive or definitive and are qualified in their entirety by reference to the Resolution; copies of which may be obtained from the Board or its Financial Advisor.

*“Additional Bonds”* – bonds issued after the Issuance Date by the Board payable from the same sources as the Bonds.

*“Authorized Denomination”* – \$5,000 and any integral multiple thereof.

*“Authorized Representative”* – one or more of the following officers of the Board: the Chair of the Board, the Vice Chair of the Board, the Chair of the Agency Operations Committee, the Commissioner, the Deputy Commissioner for Finance and Administration/Chief Operating Officer and such other officer or employee of the Board authorized by the Board to act as an Authorized Representative.

*“Book-Entry System”* – the system maintained by the Securities Depository.

*“Business Day”* – any day other than (i) a Saturday, Sunday, legal holiday or any other day on which banking institutions in New York, New York, or Austin, Texas are generally authorized or obligated by law or executive order to close, or (ii) a day on which the New York Stock Exchange is closed.

*“Code”* – the Internal Revenue Code of 1986, as amended, including applicable regulations, published rulings and court decisions.

*“College Student Loan Bonds”* – general obligation bonds issued pursuant to the Constitutional Provision, including any refunding bonds attributable thereto.

*“Commissioner”* – the Commissioner of Higher Education.

*“Comptroller”* – the Comptroller of Public Accounts of the State.

*“Constitutional Provision”* – collectively, as applicable, (i) Sections 50b, 50b-1, 50b-2 and 50b-3 of Article III of the Texas Constitution (which Sections were repealed “to eliminate duplicative, executed, obsolete, archaic and ineffective constitutional provisions” pursuant to Section 55 of H.J.R. No. 62 approved by the voters of the State on November 2, 1999), and (ii) Section 50b-4, as amended, Section 50b-5 and Section 50b-6 of Article III of the Texas Constitution, and (iii) Section 50b-7 of Article III of the Texas Constitution.

*“Depository Participant”* – the securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf a Securities Depository was created to hold securities to facilitate the clearance and settlement of securities transactions among Depository Participants

*“Event of Default”* – any event of default as defined in the Resolution (see “THE BONDS—Events of Default”).

*“Fiscal Year”* – the period of time beginning in each calendar year on September 1st and ending August 31st of the calendar year next following, or any other 12-month period of time adopted by the State as its “fiscal year.”

*“Issuance Date”* – means the date of the initial delivery of and payment for the Bonds.

*“Moody’s”* – means Moody’s Investors Service, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007, or such other address provided by Moody’s to the Board, its successors and assigns.

*“MSRB”* – the Municipal Securities Rulemaking Board.

*“Outstanding”* – when used to modify Bonds, Bonds issued, authenticated and delivered under the Resolution, excluding: (i) Bonds which have been exchanged or replaced or otherwise surrendered for cancellation; (ii) Bonds which have been paid; (iii) Bonds which have become due and for the payment of which moneys have been duly provided; and (iv) Bonds with respect to which the Resolution has been discharged pursuant to the provisions of “THE BONDS—Defeasance”.

*“Owner”* – the person who is the registered owner of a Bond or Bonds, as shown in the Register.



“*Paying Agent/Registrar*” – initially, \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_, or any successor thereto as provided in the Resolution.

“*Record Date*” – the close of business on the 15th calendar day of the month immediately preceding the Interest Payment Date.

“*Register*” – the Register specified in the Resolution.

“*Rule*” – SEC Rule 15c2-12, as amended from time to time.

“*S&P*” – means S&P Global Ratings, 55 Water Street, 38<sup>th</sup> Floor, New York, New York 10041, or such other address provided by S&P to the Board, its successors and assigns.

“*SEC*” – the United States Securities and Exchange Commission.

“*Securities Depository*” – a “clearing agency” registered under Section 17A of the Securities Exchange Act of 1934, as amended, including The Depository Trust Company, New York, New York, or its nominee, and the successors and assigns of any such entity.

“*Treasury Regulations*” – regulations promulgated by the U.S. Department of the Treasury pursuant to the Code.

“*Unclaimed Payments*” – money deposited with the Paying Agent/Registrar for the payment of principal of, redemption premium, if any, or interest on the Bonds as the same come due and payable or money set aside for the payment of Bonds duly called for redemption prior to maturity, which moneys remain on deposit with the Paying Agent/Registrar following the date on which such payments are due.

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## **APPENDIX C**

### **SUMMARY OF VARIOUS STUDENT LOAN PROGRAMS**

This APPENDIX C is a summary, as of the date hereof, of various student loan programs authorized by Chapter 52, Texas Education Code (the “Hinson-Hazlewood College Student Loan Act” or the “Act”) and other provisions of the Texas Education Code, as may be amended from time to time. Such loan programs may be funded with the proceeds of State of Texas College Student Loan Bonds and certain other moneys on deposit in the Student Loan Auxiliary Fund and the Texas Opportunity Plan Fund. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS—Other Funds Administered by the Board” herein.

#### **I. Non-Guaranteed Loan Programs.**

##### **A. The Programs:**

- i. The College Access Loan (CAL) Program provides non-guaranteed loans to qualified students at eligible institutions. Borrowers with approved credit in this program will be given a lower origination fee if they secure a credit-worthy co-signer. Individuals enrolled in Alternative Educator Certification Programs approved by the State Board of Educator Certification may also qualify for CAL loans.
- ii. Authorized during Fiscal Year 2003, the B-On-time loan program (BOT Program) provides non-guaranteed loans, which bear no interest, to eligible Texas students to enable them to attend colleges and universities in Texas. If upon graduation, the student meets specified goals relating to efficiency and academic success, the entire loan amount will be forgiven. If the student does not meet such specified goals upon graduation, the BOT Program loan continues to bear no interest but the student must repay the principal amount thereof.

##### **B. Authority:**

- i. CAL loans are extended under this program by authority of the Act and the administrative rules of the Texas Higher Education Coordinating Board (Board), found at 19 Texas Administrative Code, Sections 21.51 – 21.99, as amended from time to time. Copies of the state statutes and rules named in this section are on file in the offices of the Board.
- ii. The BOT Program is authorized by the Texas Education Code, § 56.0092, which authorizes BOT Program loans to be made from moneys on deposit in the “B-On-Time Student Loan Account” (BOT Account), which is an account within the State’s General Revenue Fund, and consists of gifts, grants, and certain moneys appropriated thereto by the State Legislature. Repayments of BOT Program loans made from the BOT Account are deposited into the BOT Account, and thus, are not available to pay debt service on the Bonds, the Previously Issued Bonds or any Additional Bonds.

The State Legislature passed House Bill 700 ("HB 700") during the 84th Legislature, Regular Session which, effective September 1, 2015, limits the use of funds within the BOT Account and the awarding of initial and subsequent loans under the BOT Program subject to certain conditions. Effective September 1, 2015, the Board may no longer award BOT Program loans to first time BOT borrowers. HB 700 authorizes the Board to make BOT Program loans using any money available under the BOT Program only to those students who received a BOT Program loan prior to the 2015-2016 academic year ("initial loans"). Such new BOT Program loans may be offered only through a semester or term occurring before the 2020 fall semester ("subsequent loans") provided such students with initial loans meet the qualification and continued eligibility requirements under the BOT Program's eligibility standards as such standards existed prior to September 1, 2015 ("eligible student"). The Board's authority to issue BOT Program bonds is now limited by HB 700 to providing funds for only such subsequent BOT Program loans. Additionally, HB 700 restricts the usage of money currently within the BOT Account to paying the Board's costs related to subsequent loans awarded for a semester or term occurring before the 2020 fall semester for eligible students. On September 1, 2020, pursuant to HB 700, the BOT Account will be abolished and any remaining money in the BOT Account may only be appropriated to general academic teaching institutions or medical and dental units.

As described under “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS— Other Funds Administered by the Board—Student Loan Auxiliary Fund” herein, all repayments of student loans made from moneys on deposit in the Student Loan Auxiliary Fund which are *in excess* of the amounts to be deposited in the Interest and Sinking Fund must be deposited into the Student Loan Auxiliary Fund. Pursuant to the Act, BOT Program loans may also be made from such excess loan repayments on deposit in the Student Loan Auxiliary Fund. Repayments, if any, of BOT Program loans made from such excess loan repayments on deposit in the Student Loan Auxiliary Fund must be deposited in the Interest and Sinking Fund. For a description of the outstanding principal amount of BOT Program loans as of August 31, 2016 and August 31, 2015 that were made from such excess loan repayments on deposit in the Student Loan Auxiliary Fund, see footnote 2 to Table 4 under “THE BOARD—Loan Demand and Financial Information” herein.

The Board is also authorized to issue State of Texas College Student Loan Bonds pursuant to Section 56.0092 of the Texas Education Code and Article III, Section 50b-7 of the State Constitution as general obligations of the State to fund the BOT Program. Such BOT Program bonds would not be on a parity with the Bonds, the Previously Issued Bonds or any Additional Bonds. To date, the Board has not issued any BOT Program bonds and has no current intention of issuing any such BOT Program bonds in the future. See “SECURITY AND SOURCES OF PAYMENT FOR THE BONDS – Additional Bonds.”

- C. Loan Limits:** The amount of loan shall not exceed the amount that the student needs in order to meet reasonable expenses as a student. Prior to certifying the loan, the authorized student financial aid official at the postsecondary institution shall make certain that the student is properly utilizing his or her eligibility for all other forms of student assistance.
- i. CAL: In the case of a CAL loan, the program officer may rely on documentation provided by the student borrower and/or documentation in the student’s financial aid file.
  - ii. BOT: In January of each year, the BOT Program’s annual loan limits for the following academic year shall be posted on the Board’s web site.
  - iii. Annual Loan Limits: The amount of a CAL loan plus other resources may not exceed the cost of attendance. Annual BOT Program loan amounts for 2016-2017 academic year at (i) 4-year public and private institutions is \$8,722, (ii) 2-year public and private junior colleges is \$2,832, and (iii) public technical colleges is \$ 4,572.
  - iv. Aggregate Loan Limit: A student may not receive a BOT Program loan for more than 150 semester credit hours or the equivalent.
- D. Borrower Information:** With the application, the Board shall provide information on the rights and responsibilities of the borrower. The borrower shall certify on the application that he or she has read and understood his or her responsibilities.
- i. The borrower and the institution shall notify the Board immediately when a CAL loan borrower through the program ceases to be enrolled at least one-half time.
  - ii. The borrower and the institution shall notify the Board immediately when a BOT loan borrower through the program ceases to be enrolled full time.
  - iii. Information on each student borrower shall be obtained in a form prescribed by the Commissioner.
- E. Disbursements to Students:** No disbursement shall be made to any student until he or she, and, if applicable, a co-signer, has executed a promissory note payable to the program for the full amount of any authorized loan plus any interest, applicable origination charges and other fees relating to governing provisions of loans. The original of such executed promissory note shall be forwarded to the Commissioner immediately. For the purposes of any contract executed by a borrower, the defense that he or she was a minor at the time he or she executed a note shall not be available to him or her in any action arising on the note.
- F. Loan Origination Fees:** The loan origination fee is set from time to time by the Board. It is deducted from the loan proceeds at the time of disbursement.

- i. The CAL origination fee will be deducted from the proceeds of each loan based on the higher of the borrower's or cosigner's Experian VantageScore and a favorable credit evaluation as follows:
  1. 0% fee if either the borrower or cosigner has an Experian VantageScore of 711 or higher; or
  2. 3% fee if either the borrower or cosigner has an Experian VantageScore between 651 and 710; or
  3. 5% fee if either the borrower or cosigner has an Experian VantageScore between 591 and 650.
- ii. The BOT loan origination fee is set from time to time by the Board. It is deducted from the loan proceeds at the time of disbursement. The current origination fee is 3%.

**G. Loan Interest:**

- i. Pursuant to the Act, the Board is obligated from time to time to fix the interest to be charged for any student loan at a rate sufficient to pay the interest on outstanding Bonds, Previously Issued Bonds and Additional Bonds, any expenses incident to their issuance, sale and retirement, and all or a portion of the Board's expenses related to the operation of the Board's student loan programs authorized under the Act. The Board's rules related to its student loan programs authorize the Commissioner to set interest rates on CAL loans.
- ii. The interest rate charged for CAL loans shall be set from time to time by the Commissioner (currently, 4.5%, effective as of June, 1 2015), shall be simple interest, and shall accrue on the outstanding principal balance from the date of disbursement. Principal and interest becomes due and payable in monthly installments six months after the student ceases to be enrolled at least half time as determined by the institution. These loans are not eligible for interest subsidy. In 2003 the Board retroactively changed the interest rates on all outstanding CAL loans for all borrowers in good standing to 5.25%.
- iii. There shall be no interest charged for BOT Program loans unless a judgment is obtained against the borrower for default in payment. If a judgment should be taken, the interest rate shall be the amount specified in §304.003 of the Texas Finance Code, (relating to Judgment Interest Rate: Interest Rate or Time Price Differential Not in Contract).

**H. Deceased or Disabled Borrowers:**

- i. All loans through the program are discharged in the event of death or in the event of permanent and total disability of the borrower.
- ii. Verification of death and determination of permanent and total disability of a borrower through both the CAL and BOT loan programs shall be made in accordance with the governing provisions of the Federal Family Education Loan Program (FFELP).
- iii. The final verification of death and determination of permanent and total disability of a borrower for both CAL and BOT Program loans shall be made by the Commissioner.
- iv. Loans upon which a judgment has been obtained are not eligible for cancellation in the event of death or total and permanent disability of the borrower.

**I. Repayment of Loans:**

- i. CAL Loans:
  1. The principal amount of all authorized loans shall be repaid in installments over a period of up to ten years if the principal balance is less than \$30,000, or up to twenty years if the principal balance is \$30,000 or more.
  2. The repayment period shall begin not more than six months after the date on which the student ceases to carry at least one half the normal full-time academic workload as determined by the institution.

3. The Board shall provide a repayment schedule calling for the minimum payment amount sufficient to repay all CAL loans over the maximum authorized period. In no case will the minimum annual repayment be less than \$600 on any CAL account.

ii. BOT Loans:

1. The principal amount of all authorized loans shall be repaid in installments over a period of not more than 15 years from the beginning of the repayment period.
2. The repayment period shall begin no earlier than six months after the date on which the student ceases to be enrolled continuously in an eligible institution, as determined by the institution.
3. The Board shall provide a repayment schedule calling for the minimum payment amount sufficient to repay all BOT loans over the maximum authorized period. In no case will the minimum annual repayment be less than \$900 on any BOT account.

**J. Prepayment:** Any CAL or BOT Program loans may be prepaid without penalty.

**K. Deferments:** Authorized deferments for CAL and BOT Program loans shall extend the maximum repayment period.

**L. Forbearance:** The Commissioner may grant periods of forbearance on all loans under certain circumstances in accordance with the applicable federal or state laws and regulations.

**M. Late Charges:** A charge of five percent (5%) of the scheduled monthly payment or five dollars (\$5.00), whichever is less, shall be assessed on both CAL and BOT Program loans if the past due amount is not received within 20 days of the scheduled due date. These charges shall be collected out of the first payments made.

**N. Collection Charges:** In the case of delinquent accounts, the Commissioner may authorize the assessment of charges necessary to collect the loan which may include court costs, attorney fees, and skip-trace fees.

**O. Cosigner:** The cosigner shall not be held responsible for repayment of the loan, accrued interest and other charges if the Board receives official certification of the borrower's death or total and permanent disability.

**P. Cancellation of Repayment:** The Commissioner may cancel the repayment of a loan received by a doctor of psychology who qualifies for such cancellation under the provisions of Texas Education Code § 52.40, as awarded in an amount not to exceed, in any year, the amount appropriated for that purpose from general revenue funds.

**Q. Enforcement of Collection; Default:** When any person who has received a CAL or BOT Program loan fails or refuses to make as many as six monthly payments due in accordance with the promissory note, the full amount of remaining principal, accrued interest and other charges shall become due and payable immediately.

**R. Collection**

- i. When a borrower has defaulted in payment on a CAL or BOT Program loan, the Attorney General, at the request of the Commissioner, will file suit against the borrower and, if applicable, his or her co-signer. If a judgment is entered, it will be abstracted in each county in which the judgment defendant owns or may own real property. Once recorded, the abstract creates a lien on non-exempt real property for 20 years. The abstract can be renewed one time to extend that lien for an additional 20 years. The Board makes every effort to maintain active judgment liens in the county of residence.
- ii. After judgments are obtained, CAL and BOT Program loans are no longer eligible for cancellation upon the borrower's death or total and permanent disability.

**II. Discontinued Non-Guaranteed State Loan Programs**

**A. The Health Education Loan Program (HELP).** The Health Education Loan Program provided non-guaranteed loans to eligible students in schools of medicine, osteopathy, dentistry, veterinary medicine,

optometry, podiatry, public health, pharmacy, nursing or allied health. Loan origination through this program ceased in 2010, but the Board continues to service loans that it made through this program. As of August 31, 2016, approximately 1% of the Board's total student loan principal receivable balance consists of loans made under the Health Education Loan Program. The terms of the Board's outstanding HELP loans are substantially similar to the terms of the CAL loans, as described in this Appendix C. Consistent with CAL program loans, in 2003 the Board retroactively changed the interest rates on all outstanding HELP loans for all borrowers in good standing to 5.25%.

### **III. Discontinued Federally Insured Programs**

*As described under "THE BOARD—Loan Demand and Financial Information," (i) effective June 30, 2010, the Board is no longer permitted to originate loans under any federally insured loan program authorized by the Act, and (ii) as of August 31, 2016, approximately 1% of the Board's total student loan principal receivable balance consists of loans made under federally insured loan programs authorized by the Act.*

*Federally insured programs that the Board previously originated loans under, and continues to service, are described below.*

#### **A. U.S. Department of Education Guaranteed Loan Programs (FFELP).**

- i. Subsidized Stafford Loan Program (FSL): The Board extended student loans to established borrowers under this program authorized by the Higher Education Act. The program provided guarantees (reimbursement) to state agencies or private lenders that administered this student lending program, and interest subsidy payments and Special Allowance Payments to the holders of qualifying student loans made pursuant to the Federal Family Education Loan Program. The guarantee covered losses sustained by the holders due to borrowers' default, death, discharge in bankruptcy, or total and permanent disability. The Board continues to service loans that it made through this program.
- ii. Unsubsidized Federal Student Loan Program (FUSL): The Board extended loans to student borrowers under the FUSL. Lenders who participated in the FUSL program were required to meet the servicing rules and regulations, promulgated under 20 U.S.C. Section 1078-1, in order to receive federal reimbursement payments for the borrower's default. FUSL loans were eligible for Special Allowance Payments, but not for interest subsidy payments. The guarantee covered losses sustained by the holders due to borrowers' default, death, discharge in bankruptcy, or total permanent disability. The Board continues to service loans that it made through this program.

- B. U.S. Department of Health and Human Services Guaranteed Loan Program.** The Health Education Assistance Loan Program (HEAL): The Board extended loans under this federally insured loan program for eligible graduate students in schools of medicine, osteopathy, dentistry, veterinary medicine, optometry, podiatry, public health, pharmacy, chiropractic, or in programs in health administration, clinical psychology or allied health. Under the HEAL Program, the Board is insured against the borrower's default, death, total and partial disability or bankruptcy on both unpaid principal and interest. In the event of default by a borrower, the federal insurance covers the amount of interest and principal due on the HEAL loans until the claim is paid. To receive HEAL insurance, the Board must comply with all insurability requirements imposed by the Secretary of Health and Human Services. Loan origination through this program ceased in 1993, but the Board continues to service loans that it made through this program.

**(Remainder of page intentionally left blank)**

## **APPENDIX D**

### **FORM OF OPINION OF CO-BOND COUNSEL**

*[An opinion in substantially the following form will be delivered by  
McCall, Parkhurst & Horton L.L.P. and Mahomes Bolden PC, Co-Bond Counsel,  
upon the delivery of the Bonds, assuming no material changes in facts or law.]*

**STATE OF TEXAS  
COLLEGE STUDENT LOAN BONDS, SERIES 2016  
DATED DECEMBER 1, 2016  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ \_\_\_\_\_,000**

**AS CO-BOND COUNSEL** for the TEXAS HIGHER EDUCATION COORDINATING BOARD (the "Issuer"), the issuer of the bonds described above (the "Bonds"), we have examined the legality and validity of the Bonds, which bear interest from the date and mature on the dates specified on the face of the Bonds, and being subject to redemption, all in accordance with the resolution of the Issuer which authorized the issuance of the Bonds (the "Resolution"). Terms used herein and not otherwise defined shall have the meaning given in the Resolution.

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer relating to the issuance of the Bonds, including the Resolution, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Texas, and that, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights, or by sovereign immunity or general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and binding general obligations of the State of Texas, pursuant to Section 50b-7 of Article III of the Constitution of the State of Texas, which made a continuing appropriation, without the necessity of subsequent legislative appropriation, of the first monies not otherwise appropriated by the Constitution, coming into the Treasury in each fiscal year, in an amount sufficient to pay the principal of and interest on the Bonds scheduled to mature during such fiscal year; and that all official actions have been taken to render fully effective for the Bonds such source of payment and other sources prescribed in the cited provision of the Constitution and in the enabling act; and that the full faith and credit of the State of Texas are pledged to the payment of principal of and interest on the Bonds.

**THE ISSUER** reserves the right to issue additional parity bonds in all things on a parity with the Bonds and payable from the same sources.

**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Bonds will be excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. The exceptions are as follows:

- (1) interest on the Bonds will be included in a corporation's alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on corporations by section 55 of the Code; and
- (2) interest on the Bonds will be included as an item of tax preference in determining the alternative minimum taxable income of the owner under section 57(a)(5) of the Code.

**IN EXPRESSING THE AFOREMENTIONED OPINIONS** as to the exclusion of interest from federal income taxes, we have relied on, and assume compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds. We call your attention to the fact that failure by the Issuer to comply with such representations and covenants may cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds.

**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Bonds is as Co-Bond Counsel for the Issuer, and, in that capacity, we have been engaged for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the availability and sufficiency of monies available for the payment of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

**THE FOREGOING OPINIONS** represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,