AGENDA ITEM 1.

ISSUANCE OF TAXABLE STUDENT LOAN REVENUE BONDS SENIOR SERIES VIII-4, SENIOR SERIES VIII-5, SENIOR SERIES VIII-6, SENIOR SERIES VIII-7 and SENIOR SERIES VIII-8 AND SUBORDINATE SERIES IX-2

Submitted for: Action

Summary: Staff has taken the preliminary steps necessary for the issuance of Student Loan Revenue Bonds to provide funds to accomplish the following purposes: (i) acquire or originate eligible student loans; (ii) fund certain Funds and Accounts created under the Resolution authorizing such Bonds; and (iii) pay the costs of issuance of the Bonds. Having completed all of the necessary preliminary steps, staff is prepared to recommend the issuance of Bonds in an amount not to exceed $360,000,000. The "2005 Second Supplemental Resolution Providing for the Sale and Issue of Taxable Student Loan Revenue Bonds, Senior Series VIII-4, Senior Series VIII-5, Senior Series VIII-6, Senior Series VIII-7 and Senior Series VIII-8, and Taxable Student Loan Revenue Bonds, Subordinate Series IX-2, of the Illinois Student Assistance Commission" (the "2005 Second Supplemental Resolution") and related documents were sent to Commissioners under separate cover.

Action requested: That the Commission approve the 2005 Second Supplemental Resolution referenced in the Summary above.

Item 1.
12/2/05

ILLINOIS STUDENT ASSISTANCE COMMISSION

ISSUANCE OF TAXABLE STUDENT LOAN REVENUE BONDS
SENIOR SERIES VIII-4, SENIOR SERIES VIII-5, SENIOR SERIES VIII-6,
SENIOR SERIES VIII-7 and SENIOR SERIES VIII-8 AND SUBORDINATE SERIES IX-2

Background

The following paragraphs set forth a brief description of the documents to be approved and the rationale for the proposed new bond issue. As of December 1, 2005 the total of all existing indebtedness authorized and outstanding by the Commission is $3,969,615,000 including tax-exempt bonds, tax-exempt notes, taxable bonds and taxable notes, compared with a limit of $5,000,000,000 of bonding authority.

The proposed transaction assumes a taxable issuance of Bonds not to exceed $360,000,000 for the purpose of acquiring (which includes purchasing or originating) Eligible Loans, funding certain Funds and Accounts created under the Resolution authorizing such Bonds, and paying costs of issuance. The proposed transaction will finance FFELP loans that contain a low-cost borrower benefit component and may also finance non-FFELP Alternative loans and Institution loans.

Brief Description of the Documents to be Approved

2005 Second Supplemental Resolution - The 2005 Second Supplemental Resolution is a supplement to the 2002 General Resolution providing for the issuance of particular series of Bonds of the Commission and contains terms and parameters relating to the proposed Bonds. The 2005 Second Supplemental Resolution, together with the 2002 General Resolution, serves as the contract between the Commission and bondholders who purchase these series of Bonds. The Bonds constitute the fifth issuance of obligations under the 2002 General Resolution. The first issuance of obligations occurred in August 2002, the second in October 2003, the third in April 2004, and the fourth in July, 2005.

Official Statement - The Official Statement is the disclosure statement prepared by staff and the financing team and used by the Underwriter to market the Bonds. It describes in depth all material provisions of the Bonds and discloses general information about the Commission and certain potential risks associated with the purchase of the Bonds.

Bond Purchase Agreement - The Bond Purchase Agreement is the agreement between the Commission and the Underwriter pursuant to which the Underwriter purchases the Bonds. A Bond Purchase Agreement for the Bonds was signed in July, 2005. A supplement to the Bond Purchase Agreement will be delivered in connection with the issuance of the Bonds and will contain the pricing terms relating to the Bonds and certain conditions that must be met by the Commission to obligate the Underwriter to purchase such Bonds.

Continuing Disclosure Undertaking - The Continuing Disclosure Undertaking, which is an exhibit to the Official Statement, is an agreement signed by the Commission to provide annual updates and periodic "material event" updates to certain central information repositories pursuant to federal securities laws. The Continuing Disclosure Undertaking for the Bonds was signed in July, 2005.

Required Steps of a Student Loan Revenue Bond Financing

For each financing, it is necessary for the staff to perform a sequence of actions, generally described as follows:

- Select a financing team of counsel and underwriters (action completed; see presentation below);
- Explore financing options and recommend financing structure (action completed; see presentation below);
- Seek a Commission resolution delegating the responsibility to finalize the offering terms (requested as part of this agenda item);
- Seek ratings by major bond rating agencies (currently working with the rating agencies to secure the ratings);
- Produce an Official Statement for the proposed bond issue (requested as part of this agenda item); and
- Seek Commission approval of the sale of securities (requested as part of this agenda item).

The Underwriting Team

Consistent with prior actions of the Commission, the team for this particular financing consists of the following members:

Underwriter:	UBS Financial Services Inc.
Financial Advisor:	Starshak Welnhofer & Co.
Bond Counsel:	Chapman and Cutler LLP
Underwriter's Counsel:	Perkins Coie LLP

Financing Options; Recommended Structure; Timing

Given that ISAC's education loan assets are predominately variable rate return assets, the best and most prudent option to finance the Commission's loan acquisition and origination program is to issue variable rate debt. As such, the Commission's financing will utilize a structure comprised of senior, triple A-rated Auction Rate Certificates ("ARCs") and subordinate, single A-rated ARCs. As variable rate instruments whose interest rates reset periodically, ARCs are advantageous in that they enable the Commission to better match the return on its variable rate assets to its cost of funds. ARCs will allow the Commission to access the short end of the yield curve and simultaneously achieve a long-dated (e.g. 40-year), non-amortizing maturity structure.

ARCs are being utilized as they offer a pricing advantage over other variable rate securities and provide a great deal of flexibility. ARCs provide flexibility as they can be called out at par at any time, within a relatively short period of time. In addition, their longer maturity structure provides the Commission with significant loan principal recycling capabilities, thus

generating maximum loan financing efficiency per dollar of debt issued (i.e.: more than $1 of loans financed for each $1 of debt issued).

A senior/subordinate structure is being utilized to reduce the need for external credit enhancement, which typically takes the form of a letter of credit or bond insurance. In a senior/subordinate structure, a significant portion of the debt can be structured to achieve a triple-A rating by utilizing lower rated, subordinate debt to provide the necessary collateral support for the senior debt. If external credit enhancement were secured, all the debt could be structured to achieve a triple-A rating. However, the cost of securing the external credit enhancement is typically more than the increased cost of funds associated with the subordinate debt.

Staff is confident that this financing can be concluded on a timely basis, and believes that it is sound business practice to proceed with the approval of the issuance and sale of the Bonds, in the maximum amount of not to exceed $360,000,000 at the time of the December 2, 2005 meeting. Based upon the projected need for funds, staff anticipates that the Bonds will be issued in December, 2005.

Seek Rating of the Bonds

The Commission's bond issue will need to be rated by agencies experienced in providing ratings for student loan revenue bonds to assure the lowest possible borrowing cost. Through their participation in regular meetings with student loan officials across the country, Fitch Inc. and Moody's Investors Service have developed significant expertise with respect to student loan revenue bond issues. It is the recommendation of staff and the financing team that the Bonds be rated by these two firms.