

**POLICIES AND PROCEDURES APPLICABLE  
TO THE TREASURY DIVISION,  
DEPARTMENT OF REVENUE,  
STATE OF ALASKA**



**APPENDIX FF**

**Investment Policies of the Alaska Student  
Loan Corporation (ASLC)**

**Investment Policy  
and Procedures**

**ALASKA STUDENT  
LOAN CORPORATION**

**November 1, 2010**

**ALASKA STUDENT LOAN CORPORATION**  
**Investment Policy and Procedures**

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**ALASKA STUDENT LOAN CORPORATION**  
**Investment Policy and Procedures**

This investment policy provides the Executive Officer or the Chief Finance Officer the authority to enter into:

- contracts with outside investment providers/managers;
- investment agreements with the State's Department of Revenue, Treasury Division; and/or
- direct investment transactions.

**Statutory Authority**

Alaska Statutes (AS) 14.42.100 – 14.42.990 create the Alaska Student Loan Corporation (Corporation) and set out the Corporation's authorized powers. These statutes provide the Corporation: (1) the power to invest its funds, subject to agreements with bondholders, and (2) the powers and responsibilities established in AS 37.10.071 (the prudent investor rule) with respect to the investment of amounts held by the Corporation (AS 14.42.200 (8)).

**Purpose**

This investment policy will provide Corporation board members, staff, and financial consultants with investment parameters to implement the authority granted in AS 14.42.100 - 14.42.990. The investment goals of the Corporation are to:

- preserve financial assets;
- maintain adequate liquidity to ensure timely payment of obligations;
- comply with federal arbitrage and yield restriction requirements;
- maximize earnings; and
- maintain diversification of investments.

The preservation of principal and maintenance of adequate liquidity are of utmost importance to the Corporation. The Corporation must invest its monies to provide for the timely payment of debt and operating costs and to meet education loan commitments. To meet education loan commitments, the Corporation must have the ability to accelerate/decelerate draws from certain accounts without subjecting itself to prepayment penalties or market risk.

The Corporation desires to maximize earnings while achieving its other investment goals.

The Corporation will maintain a diversification of investments that minimizes exposure to the credit risk of individual investment providers. The diversification requirements are described in the section titled Policy Requirements.

To ensure a market rate and to comply with federal requirements regarding investment of tax-exempt bond proceeds, the Corporation will utilize the competitive procurement process for investment contracts, unless otherwise provided for in this policy. The Corporation will follow the process described in the section titled Procurement Process.

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**Summary of Investible Assets**

- Assets pledged to bond indentures, loan trusts or other debt instruments (Pledged Funds and three of the Custodial/Depository Agreement Funds, collectively referred to as Pledged Funds) for which investments are governed by related debt instruments and/or a credit provider, if any. See Exhibit A, B and C for additional information related to the investment of Pledged Funds.
  
- Assets not pledged (non-pledged Funds).

**Requirements**

The Board will review this investment policy annually to determine the policy's effectiveness and to make adjustments to reflect changes in investment strategy and goals.

**Diversification**

All investment contracts must meet the Corporation's diversification standards at the time the investment is made. Investment agreement providers will be limited to providing investments to the lesser of \$50,000,000 or 5% of the Corporation's total financial assets. These diversification standards are not applicable to investments in direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S., or bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by FNMA or FHLMC, or to acquisition funds (monies held in the Series Loan accounts or the Unallocated Account of the 2002 Indenture and monies held in the Education Loan Fund of the 2009 Trust) that will be reduced to a maximum of \$50,000,000 in the first six months of the agreement.

Bank deposits or sweep accounts held in U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation are also excluded from the diversification standards. These holdings will be utilized as investments only when the return on such holdings is expected to be higher than the return on other allowable securities.

**Safekeeping**

Unless otherwise indicated, the Executive Officer shall appoint independent third-party trustee(s) to act as safekeeping and custodial agent(s).

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*Derivative products*

Any and all swaps and other derivative products are not permitted investments. If the Corporation later chooses to invest in such derivative products, this policy must be revised and approved by the Board prior to entering into such products.

*Pledged Funds*

The Corporation's investment of Pledged Funds is subject to requirements described in the:

- Indenture dated June 1, 2002, and, as amended by each applicable Supplemental Indenture (Exhibit C);
- Indenture dated February 1, 2004 (Exhibit C);
- Indenture and Supplemental Indenture dated March 1, 2005 (Exhibit C);
- Trust Agreement dated July 17, 2009 (Exhibit C); or
- Funding Note Purchase Agreement dated June 9, 2010 (Exhibit C).

These investments represent specific securities, investment agreements, deposit accounts or balances in qualifying investment pools and money market accounts. The specific securities are held by the Corporation's Trustee or third-party custodian designated by the Executive Officer or the Funding Note Purchase Agreement.

*Non-Pledged Funds*

The Corporation's non-pledged funds may be invested in the various fixed-income pools managed by the State of Alaska's Department of Revenue, Treasury Division. Investments in the State's fixed-income investment pools are made in accordance with the State's General Investment Policy. These investments represent an ownership share of the pool's securities rather than ownership of specific securities themselves. The specific securities are held by Treasury's third-party custodian. Investment income is calculated daily by the State's Department of Revenue, based on the pro-rata share of the Corporation's invested balance and distributed at least monthly.

Non-pledged funds not invested in the State's fixed-income pools shall consist of:

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.;
- Bonds, notes or other evidences of indebtedness rated "AAA/Aaa" and issued by federal agencies which do not represent the full faith and credit of the U.S.;
- Bonds, notes or other evidences of indebtedness rated "A" or better and issued by domestic municipalities;

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- Corporate bonds and convertible securities rated “A” or better;
- Collateralized mortgage obligations originated from a federal agency;
- Collateralized investment contracts and repurchase agreements, see the sections titled Collateral and Procurement Process;
- Uncollateralized investment contracts as long as the investment provider’s long-term rating is and remains the highest possible throughout the contract term, see the section titled Procurement Process;
- Fixed income money or mutual funds rated “A” or better;
- Certificates of deposit and term deposits of U.S. domestic financial institutions or trust companies which are members of the Federal Deposit Insurance Corporation as long as collateralized at 100% of principal and accrued unpaid interest or that the long-term unsecured debt obligations of such depository institution or trust company, at and during the term of such investment, are rated at least in the second highest rating category possible; and
- Short-term domestic corporate promissory notes (commercial paper) payable in U.S. dollars as long as the provider’s short-term rating is “A” or better throughout the investment term.

All references to ratings contained herein are to the ratings of nationally recognized rating agencies including, but not limited to, Standard & Poor's Ratings Group (S&P), Moody's Investors Service (Moody's), and Fitch. In addition, references to specific ratings and investment providers are as follows:

- For primary dealers, the senior unsecured long-term debt rating of the primary dealer;  
Investment provider shall be a government bond dealer reporting to, trading with, and recognized as a primary dealer by the Federal Reserve Bank of New York.
- For domestic banks, the senior unsecured long-term debt rating of the domestic bank;
- For U.S. branches or domestic affiliates of foreign banks, the senior unsecured long-term debt rating of the Parent Company;  
An enforceability opinion must be provided by both the domestic branch office issuing the agreement and the parent company's home office counsel.
- For insurance companies or corporations whose obligations are unconditionally guaranteed by an insurance company, the claims paying ability rating; and
- For insurance holding companies or corporations whose obligations are unconditionally guaranteed by an insurance holding company, the senior long-term debt rating of the holding company.

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Collateral

- Direct obligations of the U.S. Treasury, obligations of federal agencies which represent the full faith and credit of the U.S. and also unconditionally guaranteed as to the timely payment of principal and interest by the U.S.
- Bonds, notes or other evidences of indebtedness rated “AAA/Aaa” and issued by federal agencies which do not represent the full faith and credit of the U.S.
- Collateral requirements: 102% when using direct obligations U.S. Treasury or 103% when using agency securities.
- Collateral shall be held by a third-party custodian acting solely as an agent for the Corporation, if not held by the Corporation directly.
- Collateral shall be valued at least monthly by a third-party custodian, marked-to-market at current price plus accrued interest.

Transactions

All purchases of securities will be made with cash. There will be no margin transactions, short sales, or direct commodity transactions.

Termination

If, at any time during the term of an investment agreement or contract, the rating of the provider, or the security itself, falls below the required rating, the investment shall be terminated in a timely fashion. Agreements/contracts will allow such termination without penalty. Reinvestment of funds will be in accordance with this investment policy.

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**Investment Manager**

If the Corporation chooses to contract with an investment manager to assist with investment activities, such services shall be obtained through the competitive process described in the section titled Procurement Process. The investment manager shall, at all times, operate within the Corporation's investment policy and any specific instructions (more limiting than the policy) provided by the Corporation.

In addition to the Corporation's investment policy and specific instructions, the following requirements apply to all investments managed by external investment managers:

- In the event that the rating of a security purchased by the investment manager is downgraded below that required in this policy, it will no longer be eligible for purchase and the Investment Manager will report the downgrade to the Corporation within five business days of the downgrade. The investment manager will included, in the report to the Corporation, a plan for monitoring and timely liquidation of the security.
- The investment manager will use duration as a means of managing the interest rate risk associated with the investment portfolio. Specific duration limits will be set based on the portfolio's liquidity and investment goals.
- Performance will be evaluated quarterly and compared to the performance of a predetermined benchmark standard based on the particular account's liquidity and investment requirements.

Managers are expected to achieve total returns, net of fees, which at a minimum match that of the market benchmark.

**Procurement Process**

*Request for Proposal*

The Corporation, in consultation with the Financial Advisor, will develop a request for proposal (RFP) outlining the scope of services, minimum experience requirements, compensation structure, reporting requirements, and the process by which a proposal will be accepted and evaluated.

*Distribution*

RFP's will be widely distributed using means that reach the intended population of entities interested in the services being requested.

*For the purpose of selecting Investment Managers*

RFP's will be distributed to Investment Managers expressing interest and posted on the State's Online Public Notice web site.

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*For the purpose of selecting Investment Providers*

The Corporation shall select which brokers/providers will receive the applicable RFP based on the following:

- businesses that have provided past quality service to the Corporation and
- businesses that have requested a copy of the RFP.

The number of providers/brokers to solicit proposals from will be determined for each RFP by the Executive Officer or the Chief Finance Officer. The number of RFP's released will be sufficient to ensure the market is fairly represented.

*Evaluation of Proposals*

*For the purpose of selecting an Investment Manager*

An evaluation committee consisting of the Chief Finance Officer (or his/her designee) and staff of the Corporation's financial advisory firm will evaluate and summarize the proposals. The committee will submit a recommendation along with the proposals, evaluations, and related summaries to the Executive Officer for review and final selection.

*For the purpose of selecting an Investment Provider*

All proposals will be summarized and evaluated by the Chief Finance Officer (or his/her designee). Proposals and related summaries will be submitted to the Executive Officer (or his/her designee) for review and final selection.

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**EXHIBIT A**

**PLEDGED FUNDS**

**2002 Trust**

The following funds have been established within the Trust created by the Master Indenture dated June 1, 2002 and related subsequent Supplemental Indentures. The purpose of the funds and their related accounts are listed below:

<u><b>Fund</b></u>	<u><b>Purpose</b></u>
Education Loan Fund	<ul style="list-style-type: none"><li>• Hold bond proceeds until disbursed</li><li>• Acquire or finance education loans</li><li>• Pay bond issuance costs</li><li>• Pay debt service payments, if necessary</li><li>• Pay program expenses, if necessary</li></ul>
Series Accounts	
Unallocated Accounts	
Revenue Fund	<ul style="list-style-type: none"><li>• Pay interest on bonds</li><li>• Pay principal on bonds</li><li>• Hold pledged receipts</li><li>• Pay program expenses or establish reserves therefore</li><li>• Pay auction agent and broker dealer fees</li><li>• Transfer funds, as necessary, to:<ul style="list-style-type: none"><li>- Interest and Principal accounts</li><li>- Capital Reserve Fund</li><li>- Series and Unallocated Accounts</li></ul></li><li>• Pay the IRS, if necessary, rebate and yield restriction payments</li></ul>
Interest Account	
Principal Account	
Revenue Account	
Redemption Account	
Capital Reserve Fund	

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**EXHIBIT A, Continued**

**PLEDGED FUNDS**

**2004 Trust**

The following funds have been established within the Trust created by the Master Indenture dated February 1, 2004. The purposes of the funds and their related accounts are listed below:

<b>Fund</b>	<b>Purpose</b>
Capital Projects Fund	<ul style="list-style-type: none"><li>• Hold bond proceeds until disbursed</li><li>• Reimburse State agencies for their qualifying capital project costs</li><li>• Pay bond issuance costs</li></ul>
Revenue Fund	
Interest Account	<ul style="list-style-type: none"><li>• Pay interest on bonds</li></ul>
Principal Account	<ul style="list-style-type: none"><li>• Pay principal on bonds</li></ul>
Revenue Account	<ul style="list-style-type: none"><li>• Hold pledged receipts</li><li>• Pay program expenses or establish reserves therefore</li><li>• Payment to bond insurer</li><li>• Transfer funds, as necessary, to:<ul style="list-style-type: none"><li>- Interest and Principal accounts</li><li>- Capital Reserve Fund</li></ul></li><li>• Pay the IRS, if necessary, rebate and yield restriction payments</li></ul>
Redemption Account	<ul style="list-style-type: none"><li>• Hold pledged receipts, in certain situations</li><li>• Purchase or redeem bonds</li></ul>
Capital Reserve Fund	<ul style="list-style-type: none"><li>• Hold bond proceeds as required by the Indenture</li><li>• Transfer funds, as necessary, to principal and interest accounts.</li></ul>

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**EXHIBIT A, Continued**

**PLEDGED FUNDS**

**2005 Trust**

The following funds have been established within the Trust created by the Master Indenture dated March 1, 2005 and related subsequent Supplemental Indentures. The purpose of the fund and their related accounts are listed below:

<u><b>Fund</b></u>	<u><b>Purpose</b></u>
State Projects Fund Series State Projects Accounts	<ul style="list-style-type: none"><li>• Hold bond proceeds until disbursed</li><li>• Reimburse State agencies for their qualifying capital project costs</li><li>• Pay bond issuance costs</li></ul>
Revenue Fund Interest Account Principal Account Revenue Account	<ul style="list-style-type: none"><li>• Pay interest on bonds</li><li>• Pay principal on bonds</li><li>• Hold pledged receipts</li><li>• Pay program expenses or establish reserves therefore</li><li>• Payment to bond insurer</li><li>• Transfer funds, as necessary, to:<ul style="list-style-type: none"><li>- Interest and Principal accounts</li><li>- Capital Reserve Fund</li></ul></li><li>• Pay the IRS, if necessary, rebate and yield restriction payments</li></ul>
Redemption Account	<ul style="list-style-type: none"><li>• Hold bond proceeds, in certain situations</li><li>• Purchase or redeem bonds</li></ul>
Capital Reserve Fund	<ul style="list-style-type: none"><li>• Hold bond proceeds as required by Indenture</li><li>• Transfer funds, as necessary, to principal and interest accounts.</li></ul>

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**EXHIBIT A, Continued**

**PLEDGED FUNDS**

**2009 Trust**

The following funds have been established within the Trust created by the Trust Agreement dated July 17, 2009. The purpose of the funds is listed below:

<u><b>Fund</b></u>	<u><b>Purpose</b></u>
Education Loan Fund	<ul style="list-style-type: none"><li>• Hold loan proceeds until disbursed</li><li>• Hold refunded loan proceeds until disbursed</li><li>• Acquire and finance education loans</li><li>• Hold pledged receipts until transferred to Trustee</li><li>• Hold origination fees collected until transferred to Origination Fee Fund</li></ul>
Revenue Fund	<ul style="list-style-type: none"><li>• Pay principal on loan</li><li>• Hold pledged receipts</li><li>• Hold investment earnings on Revenue and Education Loan Funds</li><li>• Pay program expenses</li><li>• Transfer funds, as necessary, to:<ul style="list-style-type: none"><li>- Interest Fund</li></ul></li></ul>
Interest Fund	<ul style="list-style-type: none"><li>• Hold initial capitalization deposit</li><li>• Hold funds for interest payments</li><li>• Hold investment earnings on Interest Fund</li><li>• Pay interest on loan</li></ul>

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**EXHIBIT A, Continued**

**PLEDGED FUNDS**

**Funding Note Purchase Agreement**

The following accounts have been established within the Funding Note Purchase Agreement dated June 9, 2010. The purpose of the accounts is listed below:

<u>Account</u>	<u>Purpose</u>
Collection	<ul style="list-style-type: none"><li>• Hold pledged receipts</li><li>• Hold investment earnings</li><li>• Pay servicer fees</li><li>• Pay ratable financing costs</li><li>• Pay principal on the Funding Note</li><li>• Transfer to the Reserve Account amount needed to maintain required balance</li><li>• Pay ratable other conduit costs</li><li>• Pay structuring agent fees</li><li>• Pay Funding Note Issuer excess balance each month.</li></ul>
Reserve	<ul style="list-style-type: none"><li>• Hold required balance</li><li>• Hold investment earnings</li><li>• Pay excess balance to Collection Account</li></ul>
DOE Reserve	<ul style="list-style-type: none"><li>• Hold estimated balance due to the Department of Education (DOE)</li><li>• Pay quarterly amounts to DOE</li><li>• Hold investment earnings</li></ul>

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**EXHIBIT B**

**CUSTODIAL/DEPOSITORY AGREEMENT FUNDS**

The following account has been established with the State's Custodian for the Alaska Student Loan Corporation (Corporation) in accordance with a Custodian/Depository Agreement between the Corporation and the State of Alaska, Department of Revenue. The account is titled the "Series Ended 2001 Custodial Account" (AY15) and holds non-pledged Funds.

The following accounts have been established with the State's Custodian or the Treasury Division of the State's Department of Revenue for the Corporation in accordance with each Custodian/Depository Agreement between the Corporation, the Trustee and the State of Alaska, Department of Revenue. These accounts hold pledged funds. They are:

1. "AlaskAdvantage Custodial Account" (AY2F)
2. 2004 Capital Project Custodial Account (AY2V)
3. 2005 Capital Project Custodial Account (AY9R)
4. Education Loan Fund (participant in AY01)

These accounts contain:

1. Loan payments collected by the Alaska Commission on Postsecondary Education that can not be electronically deposited to an account held by the Trustee. Pledged loan payments are pending transfer to an Indentured or Trust account. Non-pledged loan payments are pending transfer to the Corporation's Operating Reserve account;
2. Monies drawn from the Corporation's Operating Reserve account for financing non-pledged education loans,
3. Monies drawn from an Indenture or Trust to finance pledged education loans,
4. Origination fees collected from borrowers pending transfer to the Corporation's Origination Fee account,
5. Monies returned (school refunds) by educational institutions for various reasons. Pledged loan refunds are pending transfer to an Indentured or Trust account. Non-pledged loan refunds are pending transfer to the Corporation's Operating Reserve account; and
6. Earnings paid on these accounts pending transfer to either an Indentured account, Trust account or the Corporation's Operating Reserve account.

The accounts are managed and maintained by the State's Department of Revenue in accordance with the related Custodian /Depository Agreements.

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**EXHIBIT C**

**INVESTMENT OF PLEDGED FUNDS**

This Exhibit is an excerpt from debt instruments governing the Corporation's investment of Pledged Funds. If there are differences between this exhibit and the debt instruments, the debt instruments take precedence. See the section titled Requirements for applicability.

**INVESTMENT SECURITIES PERMITTED BY  
THE INDENTURE DATED June 1, 2002**

- (a) direct general obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States or any agency or instrumentality thereof, provided such obligations are backed by the full faith and credit of the United States; or (ii) FHA debentures, Freddie Mac senior debt obligations, Federal Home Loan Bank consolidated senior debt obligations, Federal Farm Credit Bank consolidated senior debt obligations, and Fannie Mae senior debt obligations, but excluding any of such securities whose terms do not provide for payment of a fixed dollar amount upon maturity or call for redemption;
- (b) Obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America:
  - United States Export-Import Bank (Eximbank)
  - Farm Credit System Financial Assistance Corporation
  - Rural Economic Community Development Administration (formerly known as Farmers Home Administration)
  - General Services Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - Government National Mortgage Association (GNMA)
  - U.S. Department of Housing & Urban Development (PHA's)
  - Federal Housing Administration
  - Federal Financing Bank
- (c) U.S. Dollar denominated deposit accounts, federal funds, and bankers' acceptance with domestic commercial banks (including any affiliate of the Trustee) which have a rating on their short-term certificates of deposit on the date of purchase of "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (for purposes of this definition, the rating of a holding company shall not be considered the rating of any bank held by such holding company);
- (d) Commercial paper which is rated at the time of purchase "A-1+" by Standard & Poor's and "P-1" by Moody's;

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

- (e) Investment in a money market fund rated “AAAm” or “AAAm-G” or better by Standard & Poor’s and “Aaa” by Moody’s, including money market funds from which the Trustee or its affiliate derives a fee for investment advisory or other services to the fund;
- (f) Guarantee investment contracts or investment agreements (including repurchase agreements), secured by collateral or unsecured as the Corporation may determine, which may be entered into by and among the Corporation, the Trustee and any bank, bank holding company, corporation or any other financial institution whose outstanding (a) commercial paper is rated “P-1” by Moody’s and “A-1+” by Standard & Poor’s for agreements or contracts with a maturity of 12 months or less, (b) unsecured long-term debt is rated “Aa3” or higher by Moody’s and “AA-“ or higher by Standard & Poor’s and, if commercial paper is outstanding, commercial paper which is rated “P-1” by Moody’s and “A-1+” by Standard & Poor’s for agreements or contracts with a maturity of 24 months or less, but more than 12 months, or (c) unsecured long-term debt which is rated “Aa3” or higher Moody’s and “AA-“ or higher by Standard & Poor’s and, if commercial paper is outstanding, commercial paper which is rated “P-1” by Moody’s and “A-1+” by Standard & Poor’s for agreements or contracts with a maturity of more than 24 months, or, in each case, by an insurance company whose claims paying ability is so rated;
- (g) General obligations of any state or municipality with a rating of “Aaa” by Moody’s and “A” Standard & Poor’s;
- (h) Any other investment, investment agreement or guaranteed investment contract approved in writing by Moody’s and Standard & Poor’s.

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### **EXHIBIT C, Continued**

#### **INVESTMENT OF PLEDGED FUNDS**

##### **INVESTMENT SECURITIES PERMITTED BY THE INDENTURE DATED February 1, 2004**

- (a) direct general obligations of, or obligations fully and unconditionally guaranteed as to the timely payment of principal and interest by, the United States or any agency or instrumentality thereof, provided such obligations are backed by the full faith and credit of the United States; or (ii) FHA debentures, Freddie Mac senior debt obligations, Federal Home Loan Bank consolidated senior debt obligations, Federal Farm Credit Bank consolidated senior debt obligations, and Fannie Mae senior debt obligations, but excluding any of such securities whose terms do not provide for payment of a fixed dollar amount upon maturity or call for redemption
- (b) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America:
  - United States Export-Import Bank (Eximbank)
  - Farm Credit System Financial Assistance Corporation
  - Rural Economic Community Development Administration (formerly known as Farmers Home Administration)
  - General Services Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - Government National Mortgage Association (GNMA)
  - U.S. Department of Housing & Urban Development (PHA's)
  - Federal Housing Administration
  - Federal Financing Bank
- (c) U.S. Dollar denominated deposit accounts, federal funds, and bankers' acceptance with domestic commercial banks (including any affiliate of the Trustee) which have a rating on their short-term certificates of deposit on the date of purchase of "A-1+" by Standard & Poor's and "P-1" by Moody's and maturing no more than 360 days after the date of purchase (for purposes of this definition, the rating of a holding company shall not be considered the rating of any bank held by such holding company)
- (d) commercial paper which is rated at the time of purchase "A-1+" by Standard & Poor's and "P-1" by Moody's
- (e) investment in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's and "Aaa" by Moody's, including money market funds from which the Trustee or its affiliate derives a fee for investment advisory or other services to the fund
- (f) investment agreements, including guaranteed investment contracts, forward purchase agreements, repurchase agreements which exceed 30 days (for repurchase agreements of 30 days or less, see (h) below) and reserve fund put agreements, each acceptable to the Insurer.

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

- (g) general obligations of any state or municipality with a rating of “Aaa” by Moody’s and “A” Standard & Poor’s
- (h) repurchase agreements for 30 days or less provided that the following criteria are met:
  - a. the agreement must be between the Corporation, the Trustee, or third party acting as agent for the Corporation or the Trustee and a dealer bank or securities firm, which may only include:
    - i. primary dealers on the Federal Reserve reporting dealer list which are rated A or better by Standard & Poor’s and Moody’s, or
    - ii. Banks rated “A” or above by Standard & Poor’s and Moody’s.
  - b. The written contract must include the following:
    - i. Securities which are acceptable for transfer are Investment Securities described in (a) or (b) of this definition found in the Master Indenture;
    - ii. The term of the agreement may be up to 30 days;
    - iii. The collateral must be delivered to the Corporation, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee before or simultaneously with payment;
    - iv. The securities must be valued weekly, marked-to-market at current market price plus accrued interest; the value of the collateral must be equal to 104% of the amount of cash transferred by the Corporation or the Trustee to the dealer bank or security firm under the agreement plus accrued interest; if the value of the securities held as collateral is, at any time, below 104% of the value of the cash transferred by the Corporation or the Trustee, then additional cash or acceptable securities (as described in b.(i) of this paragraph) must be transferred; if, however, the securities used as collateral are FNMA or FHLMC obligations, then the value of collateral must equal 105%.
  - c. the Corporation or the Trustee must receive a legal opinion stating that the form of the agreement, which shall be attached to such opinion, meets guidelines under State law for legal investment of public funds; provided, however, that the opinion described in this clause is required to be delivered only on the date of issuance of the Bonds and on the date the Corporation or Trustee enters into a repurchase agreement that is in a form materially different from the form for which an opinion has previously been given pursuant to this clause
  - d. Any other investment, investment agreement or guaranteed investment contract approved by Moody’s, Standard & Poor’s and the Insurer

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

**INVESTMENT SECURITIES PERMITTED BY  
THE INDENTURE DATED March 1, 2005**

- (a) direct obligations of (including obligations issued or held in book entry form on the books of) the Department of the Treasury of the United States of America
- (b) obligations of any of the following federal agencies which obligations represent the full faith and credit of the United States of America:
  - Export-Import Bank (Eximbank)
  - Farm Credit System Financial Assistance Corporation
  - Rural Economic Community Development Administration (formerly known as Farmers Home Administration)
  - General Services Administration
  - U.S. Maritime Administration
  - Small Business Administration
  - Government National Mortgage Association (GNMA)
  - U.S. Department of Housing & Urban Development (PHA's)
  - Federal Housing Administration
  - Federal Financing Bank
- (c) Senior debt obligations rated "AAA" by Standard & Poor's issued by the Federal National Mortgage Association or the Federal Home Loan Mortgage Corporation, obligations of the Resolution Funding Corporation (REFCORP), senior debt obligations of the Federal Home Loan Bank System, and senior debt obligations of any government sponsored agencies approved by Financial Security Assurance Inc
- (d) U.S. Dollar denominated deposit accounts, federal funds, and bankers' acceptance with domestic commercial banks (including any affiliate of the Trustee) which have a rating on their short-term certificates of deposit on the date of purchase of "A-1" or "A-1+" by Standard & Poor's and maturing no more than 360 days after the date of purchase (for purposes of this definition, the rating of a holding company shall not be considered the rating of any bank held by such holding company)
- (e) commercial paper which is rated at the time of purchase "A-1+" by Standard & Poor's and which matures not more than 270 days after the date of purchase
- (f) investment in a money market fund rated "AAAm" or "AAAm-G" or better by Standard & Poor's, including money market funds from which the Trustee or its affiliate derives a fee for investment advisory or other services to the fund

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

- (g) Pre-refunded municipal obligations defined as follows:

Any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state which are not callable at the option of the obligor prior to maturity or as to which irrevocable instructions have been given by the obligor to call on the date specified in the notice, and (A) which are rated, based on an irrevocable escrow account or fund (the "escrow"), in the highest rating category by Standard & Poor's; or (B)(i) which are fully secured as to principal and interest and redemption premium, if any, by an escrow consisting only of cash or obligations described in paragraph (a) above, which escrow may be applied only to the payment of such principal of and interest and redemption premium, if any, on such bonds or other obligations on the maturity date or dates thereof or the specified redemption date or dates pursuant to such irrevocable instructions, as appropriate, and (ii) which escrow is sufficient, as verified by a nationally recognized independent certified public accountant, to pay principal of and interest and redemption premium, if any, on the bonds or other obligations described in this paragraph on the maturity date or dates specified in the irrevocable instructions referred to above, as appropriate

- (h) general obligations of states with a rating of at least "A2/A" or higher by Standard & Poor's
- (i) repurchase agreements for 30 days or less provided that the following criteria are met:
- a. the agreement must be between the Corporation, the Trustee, or third party acting as agent for the Corporation or the Trustee and a dealer bank or securities firm, which may only include:
    - i. primary dealers on the Federal Reserve reporting dealer list which are rated "A" or better by Standard & Poor's and Moody's, or
    - ii. Banks rated "A" or above by Standard & Poor's and Moody's;
  - b. The written contract must include the following:
    - i. Securities which are acceptable for transfer are Investment Securities described in (a), (b) or (c) above;
    - ii. The term of the agreement may be up to 30 days
    - iii. The collateral must be delivered to the Corporation, the Trustee (if the Trustee is not supplying the collateral) or third party acting as agent for the Trustee before or simultaneously with payment;
    - iv. The securities must be valued weekly, marked-to-market at current market price plus accrued interest; the value of the collateral must be equal to 104% of the amount of cash transferred by the

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### EXHIBIT C, Continued

#### INVESTMENT OF PLEDGED FUNDS

Corporation or the Trustee to the dealer bank or security firm under the agreement plus accrued interest; if the value of the securities held as collateral is, at any time, below 104% of the value of the cash transferred by the Corporation or the Trustee, then additional cash or acceptable securities (as described in b.(i) of this paragraph) must be transferred; if, however, the securities used as collateral are FNMA or FHLMC obligations, then the value of collateral must equal 105%

- c. the Corporation or the Trustee must receive a legal opinion stating that the form of the agreement, which shall be attached to such opinion, meets guidelines under State law for legal investment of public funds; provided, however, that the opinion described in this clause is required to be delivered only on the date of issuance of the Bonds and on the date the Corporation or Trustee enters into a repurchase agreement that is in a form materially different from the form for which an opinion has previously been given pursuant to this clause.
- d. investment agreements, with a domestic or foreign bank or corporation (other than a life or property casualty insurance company) the long-term debt of which, or, in the case of a guaranteed corporation the long-term debt, or, in the case of a monoline financial guaranty insurance company, claims paying ability, of the guarantor is rated at least "AA" by Standard & Poor's and "Aa" by Moody's; provided that, by the terms of the investment agreement:
  - i. interest payments are to be made to the Trustee at times and in amounts as necessary to pay debt service (or, if the investment agreement is for the construction fund, construction draws) on the Bonds;
  - ii. the invested funds are available for withdrawal without penalty or premium, at any time upon not more than seven days' prior notice; the Corporation and the Trustee hereby agree to give or cause to be given notice in accordance with the terms of the investment agreement so as to receive funds there under with no penalty or premium paid;
  - iii. the investment agreement shall state that is the unconditional and general obligation of, and is not subordinated to any other obligation of, the provider thereof or, if the provider is a bank, the agreement or the opinion of counsel shall state that the obligation of the provider to make payments there under ranks pari passu with the obligations of the provider to its other depositors and its other unsecured and unsubordinated creditors;
  - iv. the Corporation or the Trustee receives the opinion of domestic counsel (which opinion shall be addressed to the Corporation and the Bond Insurer) that such investment agreement is legal, valid, binding and enforceable upon the provider in accordance with its

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### EXHIBIT C, Continued

#### INVESTMENT OF PLEDGED FUNDS

terms and of foreign counsel (if applicable) in form and substance acceptable, and addressed to, the Bond Insurer;

- v. the investment agreement shall provide that if during its term:
  - 1. the provider's rating by either Standard & Poor's or Moody's falls below "AA-" or "Aa3", respectively, the provider shall, at its option, within 10 days of receipt of publication of such downgrade, either (i) collateralize the investment agreement by delivering or transferring in accordance with applicable state and federal laws (other than by means of entries on the provider's books) to the Corporation, the Trustee or a third party acting solely as agent therefore ( the "Holder of the Collateral") collateral free and clear of any third-party liens or claims the market value of which collateral is maintained at levels and upon such conditions as would be acceptable to S&P and Moody's to maintain an "A" rating in an "A" rated structure financing (with a market value approach); or (ii) repay the principal of and accrued but unpaid interest on the investment, and
  - 2. the provider's rating by either Standard & Poor's or Moody's is withdrawn or suspended or falls below "A-" or "A3", respectively, the provider must, at the direction of the corporation or the Trustee (who shall give such direction if so directed by the Bond Insurer), within 10 days of receipt of such direction, repay the principal of and accrued but unpaid interest on the investment, in either case with no penalty or premium to the Corporation or Trustee, and
- vi. The investment agreement shall state and an opinion of counsel shall be rendered, in the event collateral is required to be pledged by the provider under the terms of the investment agreement, at the time such collateral is delivered, that the Holder of the Collateral has a perfected first priority security interest in the collateral, any substituted collateral and all proceeds thereof (in the case of bearer securities, the means the Holder of the Collateral is in possession);
- vii. The investment agreement must provide that if during its term:
  - 1. the provider shall default in its payment obligations, the provider's obligations under the investment agreement shall, at the direction of the Corporation or the Trustee (who shall give such direction if so directed by the Bond Insurer), be accelerated and amounts invested and accrued

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

but unpaid interest thereon shall be repaid to the Corporation or Trustee, as appropriate, and

2. the provider shall become insolvent, not pay its debts as they become due, be declared or petition to be declared bankrupt, etc. (“event of insolvency”), the provider’s invested and accrued but unpaid interest thereon shall be repaid to the Corporation or Trustee, as appropriate.

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

**INVESTMENT SECURITIES PERMITTED BY  
THE TRUST DATED July 17, 2009**

- (a) direct obligations of, or obligations on which the timely payment of the principal of and interest on which are unconditionally and fully guaranteed by, the United States of America; and
- (b) investments in a money market fund rated at least "Aaa" by S&P or otherwise in the highest rating category of S&P for money market funds and at least "AA" or "F-1+" by Fitch (if then rated by Fitch) if the money market fund has the ability to maintain a stable one dollar net asset value per share and the shares are freely transferable on a daily basis, including funds for which the Trustee or an affiliate thereof acts as investment advisor or provides other services.
- (c) holdings in any of the various fixed-income pools managed by the State's Department of Revenue, Treasury Division.
- (d) short term investments with domestic commercial banks maturing not more than 365 calendar days after the date of purchase, provided, however, that short term investments are guaranteed by a Federal agency listed in (a) above or fully collateralized by securities listed in (a) above or that the long-term unsecured debt obligations of such depository institution or trust company at and during the term of such investment are rated at least in the second highest rating category possible.

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**EXHIBIT C, Continued**

**INVESTMENT OF PLEDGED FUNDS**

**INVESTMENT SECURITIES PERMITTED BY  
THE FUNDING NOTE PURCHASE AGREEMENT June 9, 2010**

- (a) direct obligations of, and obligations fully and unconditionally guaranteed as to timely payment by, the U.S. government or an agency, instrumentality, or establishment of the U.S. government (Government Securities);
- (b) commercial paper having, at the time of investment or contractual commitment to invest therein, a rating of “A-1+” from S&P and “F1+” or higher from Fitch;
- (c) repurchase and reverse repurchase agreements collateralized with Government Securities, including those of the Conduit Administrator or any of its affiliates;
- (d) investment in money market mutual funds having a rating in the highest investment category granted thereby from S&P and Fitch, including, without limitation, any mutual fund for which the Conduit Administrator or an affiliate of the Conduit Administrator serves as investment manager, administrator, shareholder servicing agent, and/or custodian or subcustodian, notwithstanding that (i) the Conduit Administrator or an affiliate of the Conduit Administrator receives fees from funds for services rendered, (ii) the Conduit Administrator collects fees for services rendered pursuant to the Administration Agreement, which fees are separate from the fees received from such funds, and (iii) services performed for such funds and pursuant to the Administration Agreement may at times duplicate those provided to such funds by the Conduit Administrator or an affiliate of the Conduit Administrator; and
- (e) demand deposits, including interest bearing money market accounts, time deposits, trust funds, trust accounts, overnight bank deposits, interest-bearing deposits and certificates of deposit or bankers acceptances of depository institutions, including the Conduit Administrator or any of its affiliates, having a long-term rating equivalent to “AAA” or higher by S&P and Fitch at the time of and during investment.

Funds must have a maturity date, or be subject to liquidation without loss, no later than the twenty-fifth day of each calendar month.