
Massachusetts Educational Financing Authority
Debt Management Policy

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The Massachusetts Educational Financing Authority (“MEFA” or “Authority”) is a body politic and corporate, constituting a public instrumentality of the Commonwealth of Massachusetts, established pursuant to Chapter 803 of the Acts of 1982, as amended, to assist the Commonwealth’s institutions of higher education, students and families in the financing and refinancing of the costs of higher education. MEFA provides low cost education loans to eligible students and families to assist with the cost of attendance at eligible higher education institutions across the Commonwealth and beyond. Under MEFA’s Financing Programs, MEFA also offers loans to refinance higher education expenses. In addition to the education loan programs, MEFA offers two college savings programs: The U.Plan – The Massachusetts Prepaid Tuition Program and The U.Fund College Investing Plan. MEFA is a self-financing Authority that does not receive state or federal appropriations to support operational expenses.

The following MEFA Debt Management Policy is filed pursuant to 976 CMR: Finance Advisory Board Regulations adopted on July 19, 2010. MEFA’s policy statement, in accordance with the State Finance and Governance Board (“SFGB”, formerly known as the Finance Advisory Board) regulations, provides an overview of the specific topics stipulated in regulation and moreover defines MEFA’s business model and debt management process. The Debt Management Policy will be reviewed and updated on an as-needed basis by MEFA’s Board of Directors and presented to the State Finance and Governance Board in accordance with required regulations.

The Massachusetts Educational Financing Authority Debt Management Policy was initially approved by MEFA’s Board of Directors on March 24, 2011 and most recently approved on March 31, 2016.

A. Use of Debt Proceeds

- The Authority is authorized to issue notes and bonds, including refunding notes and bonds. The proceeds of any Authority “new money” issuance are generally used to finance education loans to eligible borrowers in amounts not greater than the cost of attendance less any financial aid awarded to the borrowers and the proceeds of the bonds to fund MEFA’s Refinance Loan Program are utilized to fund loans to refinance higher education expenses.
- Debt could also be issued for other corporate purposes. The source of repayment of the notes or bonds is primarily Authority revenues derived from the repayment of the education loans.
- Under its U. Plan Prepaid Tuition Program (“U. Plan”), MEFA, in cooperation with the state treasurer, shall make available Commonwealth College Opportunity Bonds for purchase to provide for costs of attendance at participating Massachusetts colleges and

universities. The U. Plan offers families the ability to lock in tomorrow's tuition at today's rates to pay for tuition and mandatory fees.

B. Internal Debt Management Organizational Structure

- Executive Director
- Assistant Executive Director
- Chief Financial Officer
 - Director of Accounting
 - Responsible for annual audits, financial reporting and budgeting process. Reconciles cash flow activities for “trust estates” established under bond resolutions.
 - Director of Financial Operations
 - Responsible for bond debt service activities, budget revenue forecasts, yield restriction and arbitrage rebate requirements.
 - Director of Portfolio Servicing
 - Responsible for oversight of the education loan servicing performed by outsourced partner. This includes in-school status activity, repayment of amortizing loans, delinquent loan collections, defaulted loan activities, including recoveries, and borrower cash application policies.
 - Director of Portfolio Origination and Funding
 - Responsible for oversight of the education loan origination and funding performed by outsourced partners. This includes the web-based application platform, annual underwriting criteria policies and cash disbursements to partner schools.
 - Director - Capital Markets
 - Responsible for organizing bond issue activities including rating agencies, cash flow structuring, resolutions and offering documents and investor relations. For existing debt, coordinates the web-based investor disclosure reporting on a quarterly basis and any ad-hoc cash flow reporting needs.

C. Legal Authorization and any Debt Limitations

- The Authority is authorized to issue debt under Chapter 15C of the General Laws. MEFA's Board of Directors consists of nine members. Five members of the Board of Directors constitute a quorum. For any action to be taken by the Authority relative to the issuance of debt, the affirmative vote of a majority of members (i.e. five members) is necessary.
- The notes and bonds issued by the Authority do not constitute a debt or liability of the Commonwealth or of any political subdivision thereof or a pledge of the faith and credit or taxing power of the Commonwealth or of any political subdivision. Also, the issuance of notes or bonds does not directly or indirectly obligate the Commonwealth or any

political subdivision thereof to make any appropriation for the repayment of the debt. Given this structure, there is no statutory debt limitation for MEFA.

D. Process for Debt Issuance

- On at least an annual basis, the Authority reviews the financing needs for authorized corporate purposes. As part of the capital program, the Authority looks at needs on a multiple year basis while reviewing the current trends that may impact the relative cost of funds.
- For MEFA debt, this process is driven by the demand for the MEFA loan programs and any general working capital requirements.
- For the U. Plan, the aggregation of savings certificate deposits by the general public drives the demand for the sale of Commonwealth College Opportunity Bonds.
- Options for the business plan are reviewed as part of the annual budget cycle, and the multiple year plan is developed, discussed and approved by the Board of Directors. The current and projected balance sheet of the Authority provides the assets and revenues needed to fund operations.
- The main driver of debt issuance is MEFA's Financing Programs. During the course of the year, MEFA issues debt to fund new loan assets which will collateralize the bonds or notes issued. The sizing of the issuance is dependent on the projected competitiveness of the new loan rates with other available products in the market, historical loan origination trends, current underwriting standards and the availability of recycling proceeds from previously issued bonds.
- Each new debt issuance transaction is structured by an experienced team of professionals including investment bankers, financial advisors and legal counsel. Leading this effort is the internal MEFA financing team, which has direct oversight over the rating agency process, cash flow modeling, bond document development, investor relations, offering documents and bond sale execution.
- Prior to the commencement of offering the bonds or notes, the MEFA Board of Directors, senior management team and other appropriate professionals review the plan of finance in detail. For the Board of Directors, this discussion is a continuation of the dialogue from previous meetings regarding the financing needs and options under consideration.
- Included in the formal Board of Directors process is a resolution authorizing the issuance of the debt with not-to-exceed amounts for the size of the transaction and the equity component to be contributed by the Authority. The resolution is reviewed with the Board of Directors in detail with respect to the actions allowed and the latitude given to the senior management team to execute the financing plan.

E. Method of Sale

- The Authority issues debt to efficiently fund the assets on the MEFA balance sheet. The majority of those assets are in the form of outstanding education loans or cash in the trust purchase accounts designated to fund future loans. Student loan bonds may be either taxable bonds or tax-exempt "private activity" bonds requiring an allocation of

“private activity bond cap” from the state for tax law purposes. The financings are “asset based structured finance” and are considered unique within the broad base of consumer asset classes. Due to this unique status, the structuring and sale execution method that the Board of Directors approves and senior management team utilizes is a negotiated sale. The negotiated process allows for flexibility in serial and term bond sizing, as well as the redemption provisions, which permit response to demand aspects for both retail and institutional investors at different tenors along the yield curve. Also, the negotiated process creates the opportunity for senior and subordinate bonds and discount and premium bonds to be structured to meet investor demand and MEFA structuring goals. MEFA utilizes a financial advisor to provide market insight during the structuring process and deliver a report to the Authority at closing stating that in their opinion the deal was priced at appropriate levels given the market conditions.

F. Circumstances for Refunding Bonds

- The Authority manages the liability side of the balance sheet to provide flexibility in the future and mitigate mismatches in the asset and liability structure. The opportunity to refund bonds is reviewed in each financing transaction. The mode and tenor of the bonds when sold or converted to fixed interest rates typically dictate the ability and timing of a refunding opportunity. A fixed interest rate bond usually has an optional call date structured at approximately year ten which permits a “portfolio” refunding of the outstanding bonds (existing loans refinanced on favorable terms). A variable interest rate bond will typically have a more flexible refunding option coinciding with the resetting of the interest rate or the interest payment dates. For a floating rate note, the refunding options typically are structured at the tail end of the transaction and are tied to a percentage of bonds outstanding.
- Another form of refunding, referred to as a “current refunding,” provides the Authority an opportunity to refund bonds prior to their stated maturity dates and effectively recycle lendable monies. This type of refunding is the process of issuing new bonds to utilize the proceeds to retire prior bonds previously issued in time to free up monies which would have otherwise been used to redeem those bonds. This process is driven by the expected education loan volume demand for a given year and its relationship to the amount of new money private activity cap MEFA has been awarded by the Commonwealth of Massachusetts.
- The execution of either a portfolio or a current refunding is dependent on two primary factors: the tax requirements for tax-exempt debt and the economic benefit provided by the process. The tax requirements are complicated and diverse, but the main premise is to maximize the original life of a prior private activity cap allocation, and to do so in concert with the terms of the new bonds issued, all the while dependent upon the education loan asset amortization for timing the maturity dates. The economic benefit is viewed in two ways: the ability to maximize the cost of funds advantage that tax-exempt debt provides when compared to taxable debt and whether MEFA maintains a consistent economic spread on its education loan assets to operate the loan program

(servicing costs) and fund the operating budget (administrative draws) over the remaining life of the assets.

G. Selection Process for Qualified Professionals

- Historically, the Authority has utilized the request for proposal process to engage capital markets professionals for services. This process provides many benefits to MEFA in regards to keeping current with market standards and building an experienced and effective team of professionals. The process enables MEFA to match the strategic plans for the Authority with experienced professionals who can help MEFA achieve its goals. The process also is effective in maintaining an appropriate level of compensation for those services. The assets of the Authority, specifically the education loans, are a highly structured product in the capital markets and require best in class services from all partners.

H. Debt Affordability and Borrowing Capacity

- The Authority accesses the capital markets to fund its Financing Programs. When looking at debt affordability, MEFA has two points of focus: (1) how to raise funds and price the education loan assets in a competitive manner with other options in the marketplace and (2) the equity contribution requirements for MEFA to provide an acceptable asset to liability ratio. As part of the senior management team discussions with the Board of Directors, MEFA is continuously focused on the competitive marketplace and any regulatory, competitive or prevailing interest rate implications that may impact volume expectations. It is also focused on the sustainability of its programs. These components will determine MEFA's goals for education loan volume. A significant portion of MEFA's operating revenues are derived from the education loan programs and it manages its budget accordingly.
- In regards to the equity requirements for a new transaction, MEFA takes a strategic approach to the balance sheet. The requirements are driven in a material way by the rating agencies and the stress case cash flow assumptions utilized to structure a financing. When a new transaction is approaching, the Board of Directors and senior management team review the financing goals and the current balance sheet position relative to the long term strategic plans. Equity in structured financing can be attained through multiple channels from the balance sheet – cash designated to support capital markets activities, education loan pricing relative to the cost of funds, leveraging existing equity in outstanding debt programs and use of senior/subordinate security structures.
- Another way MEFA may, in the future, utilize the capital markets is for working capital purposes. To date, MEFA has not had the need to raise funds specifically for this, but the parameters of such an event would lead us to look at the net total unrestricted revenues (after meeting the long-term budgeting requirements) and more importantly the timing of such revenues, that would be available to pay any current interest requirements and retire the debt at the stated maturity.

In terms of borrowing capacity, MEFA looks to utilize the capital markets on an as-needed basis in response to demand for education loans. In simplistic terms, the demand for our assets will lead us to expand our liabilities and thus have a balance sheet that grows over time. As pressure grows on MEFA to contribute equity to traditional bond issues to hold loan rates down by bringing parity ratios to higher and higher levels at issuance, MEFA may consider borrowing in effect against its expectations of future residual distributions under mature bond programs. The proceeds would be used to meet equity demands, but the overriding purpose of such financing – to fund education loans on attractive terms – would be the same as its traditional bond issuances.

I. Risk Controls, Monitoring and Compliance

- As discussed under Debt Affordability and Borrowing Capacity, MEFA enters the capital markets on an as-needed basis. The main premise is to match fund assets and liabilities for our structured finance education loan programs. This means that for fixed interest rate education loan demand, MEFA has historically issued fixed interest rate debt (natural and synthetic) and for variable interest rate education loans, the Authority has issued variable interest rate debt in the tax-exempt and taxable modes. The underlying success driver for MEFA is to underwrite quality assets with a high probability of repayment, manage the pool of assets over its repayment term and retire the associated debt by stated maturity from the cash flows of the education loan assets.
- Each mode of debt presents different risk control and monitoring needs. For the debt issues, the supporting assets are primarily education loans and reserve funds. An emphasis is placed on the initial structuring of the trust assets and liabilities. The rating agencies require multiple stress case cash flow scenarios that require each trust estate to meet the liquidity demands of the scenario. The stress case cash flows are designed to protect the investors from any contemplated principal risk and in the case of MEFA, provide each bond program protection against much higher stress levels than the management expectations for net losses.
- Once debt is issued, the senior management team focuses on the performance of the assets during the repayment period. The loans are originated under the criteria approved by the Board of Directors to meet the financing goals. During the grace period (the period after the in-school period and prior to entering repayment), MEFA communicates with individual borrowers through the loan servicer to confirm the original terms of the loan agreements and provide an opportunity for borrowers to update demographic data. Working with the loan servicer, MEFA receives weekly loan portfolio data that is analyzed for underlying performance trends. The aging of the portfolio is monitored and trends in delinquencies and defaults are reported to the senior management team monthly and the Board of Directors on at least a quarterly basis. Underwriting criteria for the assets is evaluated to understand improvement opportunities based on the actual performance. As assets amortize during the repayment period, MEFA has the ability to identify pools of risk at the loan level and execute early intervention procedures. In the event of an education loan default, MEFA works with collection attorneys to ensure maximum recovery. The education loan portfolio management team at MEFA continually updates the monitoring process and

reviews the underlying trends to maintain consumer asset best practices as well as all compliance with all applicable laws.

- While the debt is outstanding and being gradually retired by the cash receipts of the education loan assets, the risks associated with fixed interest rate debt and variable interest rate debt are monitored. Fixed interest rate debt is structured with serial bond and term maturities across the interest rate yield curve. As discussed, the rating agencies stress the repayment of maturities during the initial structuring of any transaction. The spread that is provided by the fixed interest rate assets when compared to the fixed interest rate cost of funds is a key driver in the success of the cash flows. For its tax-exempt bonds, MEFA is limited by tax law to earning no more than 2.00% over the cost of funds during the life of the education loan assets. For the variable interest rate debt, MEFA maintains the match funding concept for the balance sheet. The demand for variable interest rate education loans drives the issuance of variable interest rate debt at MEFA. With variable interest rate debt, the concept of basis risk is a part of any balance sheet discussion. This relates to the relationship of the index that the variable rate bonds interest rate is derived from with the index that the education loan assets are priced with. This relationship is historically analyzed when structuring the assets and monitored by the senior management team. Another aspect of basis risk which is monitored is the frequency and timing of the rate resets for the variable interest rate debt and the variable interest rate assets.
- In regards to post-issuance debt compliance, the Authority covenants to many aspects of this in its bond resolutions. The material components of tax-exempt Education Loan Revenue Bond compliance are: the 2.00% yield restriction on the education loan assets over the life of the outstanding bonds, the arbitrage rebate restrictions related to the investment earnings of tax-exempt proceeds, the origination of qualified loans, and continuing disclosure requirements. The Authority has engaged finance professionals and bond counsel to annually update the material components and accrues annually as a liability the appropriate expenses for yield restriction and arbitrage rebate. Any amendments related to a resolution or actions listed under the continuing disclosure requirements are disclosed to the investors through a filing with Electronic Municipal Market Access System (EMMA).
- On September 15, 2011 and thereafter on March 26, 2014 the Authority adopted Post – Issuance Compliance Procedures for Tax-Exempt Bonds attached as Appendix A hereto.

J. Debt Structure Parameters

- As noted above, the issuance of debt by the Authority is driven by the demand for the education loan assets. The demand for a particular education loan asset, either fixed or variable interest rate, will determine the ratio of fixed interest rate debt to variable interest rate debt.
- The demand for education loan assets impacts the structure of the debt outstanding. The repayment term for an education loan asset can range from 10 years to 20 years. The in-school period, which typically can range from 1 to 5 years, will also impact the structuring and timing of education loan receipts. In addition, rating agency stress tests

impose structuring requirements. When structuring the allocation of capital along the interest rate yield curve, the demand for assets may not line up exactly with investor demand. The negotiated sale process allows the MEFA financing team and professionals to optimize the cost of funds based upon the education loan demand and bond investor appetite.

- The rating agencies and investors play an important role in structured finance with respect to internally generated credit enhancement. Due to the rating agency requirements, credit enhancement during the life of the debt outstanding is a blend of variables: starting parity (over-collateralization) requirements when the deal closes in the form of equity contributions for reserve funds and capitalized interest or existing education loans, the spread on the education loan assets relative to the cost of funds, reserve fund floors, and investment earnings on proceeds and education loan receipts. For MEFA, strict loan underwriting criteria is also a form of credit enhancement. In the past, external insurance in the structured finance markets was another option. From a structuring perspective, insurance is only a positive if it decreases the cost of funds by more than its cost and has value in the marketplace.

K. Rating Agency Management and Communications

- As discussed, the rating agencies are the key gatekeepers in the structured finance process. At the onset of a transaction, the ratings level to seek and agencies to engage are determined. The ratings level is a function of the quality of the education loan assets that collateralize the bonds being offered. Prior to a new issuance, the senior management team, MEFA finance team and finance professionals meet with the rating agencies to review the corporate update on the business model, the education loan program financing goals for the transaction and education loan asset performance trends related to originations and underwriting, delinquency experience, and default/recovery experience. From these discussions, the stress case cash flow assumptions are developed by the rating agencies and the deal is structured for sale to bond investors. Communication with the rating agencies is concentrated in the finance team at MEFA with the Director – Capital Markets being the primary contact. All questions related to the data presented or requested by the rating agencies are managed by the MEFA finance team with the finance professionals providing insight and strategic support. During the life of the outstanding debt, the MEFA finance team responds to rating agency surveillance activity as requested with a focus on maintaining the credit ratings for each bond issue and thus ensuring the long term liquidity in the MEFA bond program.

L. Investor Relations Management

- The investor communications are managed by the finance team at MEFA under the direction of the Chief Financial Officer. Upon the establishment of a bond resolution, MEFA will provide quarterly portfolio information on the trust estate which includes the bonds outstanding, the collection activities, delinquency and default experience, the

- parity or overcollateralization levels, and the cash flow waterfall activities related to paying principal and interest on the debt outstanding and program expenses.
- This information is all reported on the investor relations page accessed directly through the mefa.org home page. The page also contains the Official Statements for the debt outstanding, audited financial statements of the Authority and rating agency reports related to new debt issuance.

M. Use of Derivative Financial Products

- MEFA will not enter into a Derivative Financial Product for speculation; nor a Derivative Financial Product, including a swaption, in which MEFA receives an upfront payment in exchange for foregoing future flexibility or optionality by granting the counterparty the right to enter into the swap at a future date; nor a traditional derivative product to manage interest rates unless it can be demonstrated that the derivative product results in a reduction of risk or a complete cost benefit analysis has been done comparing any additional risks to expected benefits and it is demonstrated that the expected benefits of the product significantly outweigh the potential risks and the additional potential risks are manageable and reasonable for MEFA.
- On March 29, 2012 and thereafter on March 26, 2014 the Authority adopted a Derivative Management Policy attached as Appendix B hereto.

APPENDIX A

Massachusetts Educational Financing Authority

Post-Issuance Tax Compliance Procedures

For Tax-Exempt Bonds

The purpose of these Post-Issuance Tax Compliance Procedures is to establish policies and procedures in connection with tax-exempt bonds (“Bonds”) issued by the Massachusetts Educational Financing Authority (the “Issuer”) so as to ensure that the Issuer complies with all applicable post-issuance requirements of federal income tax law needed to preserve the tax-exempt status of the Bonds.

General

Ultimate responsibility for all matters relating to Issuer financings and re-financings rests with the Chief Financial Officer of the Issuer (the “Administrator”). The Administrator will be assisted by the Director of Financial Operations, the Director – Capital Markets and the Senior Financial Analyst.

The Administrator, the Director of Financial Operations, the Director – Capital Markets and the Senior Financial Analyst shall participate in training to become informed of requirements of the relevant tax law. Such training shall include grounding through attendance at educational conferences, as well as regular consultation with the attorneys who served as bond counsel for the issuance of the Bonds (“Bond Counsel”) and with the Rebate Service Provider (as defined below).

Post-Issuance Compliance Requirements

External Advisors / Documentation

The Administrator and other appropriate Issuer personnel shall consult with Bond Counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for the appropriate tax status. These requirements and procedures shall be documented in Issuer resolutions, Tax Certificates and other documents finalized at or before issuance of the Bonds. These requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and all other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds.

The Administrator and other appropriate Issuer personnel also shall consult with Bond Counsel and other legal counsel and advisors, as needed, following issuance of the Bonds to ensure that all applicable post-issuance requirements in fact are met. The GFOA/NABL checklist attached hereto as Exhibit A, includes, without limitation, a checklist of requirements among which the most likely to be applicable are highlighted.

Whenever necessary or appropriate, the Issuer shall engage expert advisors (each a “Rebate Service Provider”) to assist in the calculation of arbitrage rebate payable in respect to the investment of Bond proceeds.

Role of the Issuer as Bond Issuer

Unless otherwise provided by Issuer resolutions, unexpended Bond proceeds shall be held by the Bond Trustee on behalf of the Issuer, and the investment of Bond proceeds shall be managed by the Administrator. The Bond Trustee and the Administrator shall maintain records and shall prepare regular, periodic statements to the Issuer regarding the investments and transactions involving Bond proceeds.

Arbitrage Rebate and Yield

Unless a Tax Certificate documents that Bond Counsel has advised that arbitrage rebate will not be applicable to an issue of Bonds:

- the Issuer shall engage the services of a Rebate Service Provider, and the Issuer or the bond trustee under the applicable series resolution (the “Bond Trustee”) shall deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider on a prompt basis;
- upon request, the Administrator and other appropriate Issuer personnel shall provide to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
- the Administrator and other appropriate Issuer personnel shall monitor efforts of the Rebate Service Provider and assure payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed; and

- during the loan origination period and thereafter, the Administrator and other appropriate Issuer personnel shall monitor the investment and origination of loans with Bond proceeds and shall consult with the Rebate Service Provider to determine compliance with any applicable yield limitations, following the issue date of the Bonds. To the extent loan forgiveness or yield reduction payments are required to achieve compliance with loan yield limitations; the Issuer will employ the procedures in the following paragraph on a timely basis;

- at least annually in connection with its fiscal year-end audit process, the Issuer will prepare an analysis of the spread between the bond yield and the loan yield for each of its outstanding Bond issues. The analysis will reflect all available actual data as to loan origination and repayments, delinquencies, defaults, recoveries after default and other factors effecting yield as of the date of calculation, and reasonable projections as to future results. If the analysis suggests that the loan forgiveness and/or yield restructure payments (to the extent permitted under applicable regulations) are or may be required to be made, the Administrator will develop a specific plan for implementing such measures in consultation with Bond Counsel and the Rebate Service Provider and the Issuer will take such action or actions as may be necessary prior to the time required under federal tax law.

The Issuer shall retain copies of all required arbitrage reports, loan yield analyses and Bond Trustee statements as described below under “Record Keeping Requirements”.

Use of Bond Proceeds

The Administrator and other appropriate Issuer personnel shall:

- monitor the use of Bond proceeds and the use of loan proceeds by following the Issuer procedures set forth in the Issuer resolutions and the Operations Manual to ensure compliance with covenants and restrictions set forth in applicable Issuer resolutions and Tax Certificates;
- maintain servicing records identifying the loans that are financed or refinanced with proceeds of each issue of Bonds;
- consult with Bond Counsel and other professional expert advisers in the review of any contracts or arrangements involving use of Bond proceeds to ensure compliance with all covenants and restrictions set forth in applicable Issuer resolutions and Tax Certificates;
- maintain records for any contracts or arrangements involving the use of Bond proceeds as might be necessary or appropriate to document compliance with all covenants and restrictions set forth in applicable Issuer resolutions and Tax Certificates; and
- meet at least annually with Bond Counsel and personnel responsible for Bond-financed loans to identify and discuss any existing or planned use of loan proceeds, to ensure that those uses are consistent with all covenants and restrictions set forth in applicable Issuer resolutions and Tax Certificates.

Record Keeping Requirements

Unless otherwise specified in applicable Issuer resolutions or Tax Certificates, the Issuer shall maintain the following documents for the term of each issue of Bonds (including refunding Bonds, if any) plus at least three years:

- a copy of the Bond closing transcript(s) and other relevant documentation delivered to the Issuer at or in connection with closing of the issue of Bonds;
- a copy of all material documents relating to loans financed or refinanced by Bond proceeds, including (without limitation) master loan agreements, loan servicer reports reflecting the loan pools origination and repayment and, from each partner college, any contracts and school certification worksheets supporting the individual loan amounts disbursed, as well as documents relating to costs reimbursed with Bond proceeds, if any; and
- copies of all records of investments, investment agreements, required arbitrage reports and loan yield analyses and underlying documents, including trustee statements.

Remedial Action

If the issuer discovers a potential tax violation, the Issuer shall immediately consult with Bond Counsel and determine appropriate corrective measures. Ultimately, such measures may include participation in the IRS's Voluntary Closing Agreement Program, if necessary.

APPENDIX B

Massachusetts Educational Financing Authority Derivative Management Policy

The Massachusetts Educational Financing Authority (“MEFA” or “Authority”) is a designated State Entity authorized to Issue Debt as stipulated in Massachusetts regulations. This policy document meets the requirements of the State Finance and Governance Board (“SFGB”) regulations effective March 10, 2017 and will provide an overview of the specific topics stipulated in the regulations outlining the general guidelines regarding the use, procurement and execution of a Derivative Financial Product (as defined by SFGB) by MEFA.

MEFA was created to assist borrowers and institutions for higher education in the financing of the costs of education through loans and to provide students and parents with convenient and effective savings programs to offset the costs of higher education. MEFA is a self-financing Authority that does not receive State appropriations to support operational expenses.

This statement of the Derivative Management Policy of MEFA has been approved by its Board of Directors. This document will be reviewed and updated on an as-needed basis by MEFA to coincide with the business goals of the Authority and will be presented to the State Finance and Governance Board as required by regulations.

Under the Authority’s “Debt Management Policy”, the Authority is authorized to issue notes and bonds, including refunding notes and bonds. The proceeds of any Authority “new money” issuance are generally used to finance education loans to eligible borrowers in amounts not greater than the cost of attendance less any financial aid awarded to the borrowers. Under MEFA’s Financing Programs, MEFA also offers loans to refinance higher education expenses. Debt could also be issued for other corporate purposes. The source of repayment of the notes, bonds and in the case of a Derivative Financial Product, is primarily Authority revenues derived from the repayment of the education loans. Under its’ “U. Plan” savings program, the Authority is also authorized to utilize Commonwealth Bonds in cooperation with the State Treasurer as an investment vehicle so that “U. Plan” participants can use payments from such bonds for the cost of attendance at institutions of higher education in Massachusetts at current tuition levels.

I. Authorization and approvals; compliance with bond documents

Prior to the Authority entering into any Derivative Financial Product, an approval must be given by the MEFA Board for the maximum bonds, notes or notional amount and the maximum duration or term of such Derivative Financial Product. Such approval may be accomplished through a specific Board vote or as part of a Bond Resolution. Bond Counsel shall determine whether a proposed Derivative Financial Product complies with all applicable provisions of MEFA's bond resolutions and agreements with respect to the Authority's outstanding debt.

II. Approach and Objectives

Derivative Financial Products such as variable rate debt, interest rate swaps and related transactions can be appropriate interest rate management tools that can help meet the Authority's financial objectives. Properly used, such instruments can increase financial flexibility, provide opportunities for interest rate savings and help manage the balance sheet through better matching of assets and liabilities. Derivative Financial Products should be integrated into the Authority's overall debt management program and may not be used for speculation.

Derivative Financial Products are appropriate when they achieve a specific financial objective consistent with MEFA's overall debt management program. The Authority may execute a Derivative Financial Product if the transaction can be reasonably expected to achieve one of, but not limited to, the following objectives:

- minimize the cost of capital with respect to MEFA's loan programs
- reduce exposure to changes in interest rates (pre and post debt issuance)
- improve the match funding of assets and liabilities
- manage variable rate debt exposure consistent with prudent practices
- increase flexibility in financing structures to achieve economic goals
- manage the risk of changes to the legal and regulatory treatment of tax-exempt debt
- manage credit exposure to existing Derivative Financial Product counterparties

III. Permitted and Prohibited Derivative Products

MEFA may utilize any or all of the following Derivative Financial Product products consistent with this Derivative Management Policy: variable rate notes, bonds or standby letters of credit, interest rate swaps, forward delivery agreements, basis swaps, rate locks, interest rate caps, floors or collars or any other similar or related transaction. Should new variable rate or financial hedging products become available in the future, which have not been presently contemplated, or if a specific circumstance arises, the Authority may seek authorization of a particular transaction not contemplated hereby when such transaction is consistent with the needs of the Authority.

While MEFA may use Derivative Financial Products as part of balance sheet management best practices, it will not enter into Derivative Financial Products under any of the following circumstances: the proposed transaction serves a purely speculative purpose (such as trading gains), exposes MEFA to non-prudent levels of risk or leverage or the pricing data related to the components of the trade are insufficient to adequately value the transaction on an on-going basis.

IV. Evaluation of Benefits and Risks

Prior to seeking authorization from the MEFA Board to implement any proposed Derivative Financial Product, the senior management team at MEFA and an independent financial advisor shall undertake an identification and evaluation of the financial benefits and risks involved in the Derivative Financial Product transaction. The team will summarize them clearly and concisely for the Board along with any measures that will be taken to mitigate those risks, recognizing that the significance of the various risks may differ from trade to trade.

The Authority shall consider the array of benefits available from each proposed Derivative Financial Product transaction, including portfolio composition, debt management, mitigation of interest rate risk, lowering the cost of debt service, or expected changes in interest rates, along with the following risks:

- **Accounting Risk:** impact of the proposed Derivative Financial Product on the Authority's financial statements and on the required accounting treatment for the proposed Derivative Financial Product transaction.
- **Administrative Risk:** operational requirements and estimated incremental additional costs for MEFA to adequately administer and monitor the proposed Derivative Financial Product.
- **Amortization Risk:** if the Derivative Financial Product is utilized to hedge an amortizing asset, MEFA will monitor the exposure to a possible mismatch in the notional amount of the trade and the assets that the hedge is associated with.
- **Assumptions Risk:** any assumptions that the proposed Derivative Financial Product depends on to generate its expected benefits, especially in a structured finance transaction.
- **Basis Risk:** quantification of any potential mismatch between the rate on the underlying bonds or investments and the rate on the proposed Derivative Financial Product that takes into account the expected duration of the mismatch
- **Counterparty Credit Risk:** the creditworthiness of the transaction's counterparty(s) and any provisions in the Derivative Financial Product master agreement that mitigate potential credit risk (e.g., collateral requirements, haircuts or assignment provisions).
- **Credit Ratings Risk:** the estimated potential impact of the proposed Derivative Financial Product on MEFA's current or future ratings by the nationally recognized credit rating agencies.
- **Embedded Call Options Risk:** in structuring a Derivative Financial Product, MEFA will take into account the economic goals and risk parameters of the trade to make the decision on adding, at a cost, the additional flexibility of an embedded call option that MEFA owns to a trades structure
- **Market Access Risk:** the proposed Derivative Financial Product's dependence on the successful completion of a future bond issuance.
- **Rollover Risk:** exists when MEFA structures a Derivative Financial Product that has a mismatch in the term of the hedge (shorter) and the term of the bonds (longer). The assets being hedged by the transaction may end up in a position on the balance sheet that leaves MEFA exposed to interest rate fluctuations and margin compression
- **Pricing Risk:** during the procurement of a Derivative Financial Product, MEFA may choose to utilize a tailored and negotiated transaction that may not be as liquid or transparent as a standard product in the capital markets. To offset this risk, an independent financial advisor will be retained to provide pricing clarity

- **Tax Risk:** MEFA's exposure under the proposed Derivative Financial Product to higher interest expense, lower investment earnings, extraordinary payments, termination or other adverse consequences as a result of an actual or anticipated future change in Federal income tax law or policy.
- **Termination Payment Risk:** MEFA's exposure under the proposed Derivative Financial Product to an involuntary termination, including the magnitude of any potential termination payment and the impact of such a payment on MEFA's balance sheet liquidity.
- **Variable Rate Exposure:** the proposed Derivative Financial Product's potential for increasing MEFA's level of variable rate debt beyond the prudent levels established by the MEFA Board.

V. CRITERIA FOR SELECTING DERIVATIVE FINANCIAL PRODUCT COUNTERPARTIES

The Authority shall enter into Derivative Financial Products only with qualified Derivative Financial Product counterparties that meet the underlying requirements of the specific bond resolution being issued from, as determined by Bond Counsel, and any rating agency requirements in a structured finance transaction or have been authorized by the MEFA Board and are eligible under MEFA's authorizing legislation, as determined by Bond Counsel. In addition, the counterparty must have a demonstrated record of successfully executing Derivative Financial Products.

The Authority shall structure Derivative Financial Product agreements to protect itself from credit deterioration of counterparties, including the use of credit support annexes or other forms of credit enhancement to secure counterparty performance. Such protection shall include any terms and conditions, which, in the Authority's and independent financial advisors discretion, are in the Authority's best interest. In evaluating counterparty exposure, MEFA will take into account not only current and proposed Derivative Financial Products, but also any relevant investment agreements and other contractual relations.

These limits will be reviewed periodically by MEFA and the MEFA Board. If it is determined that the exposure limit for a specific counterparty exceeds, or with the addition of an additional Derivative Financial Product will exceed a prudent level, then MEFA, in consultation with the independent financial advisor will explore strategies to mitigate this exposure.

VI. MASTER AGREEMENT DOCUMENTATION

Unless otherwise approved by the MEFA Board, MEFA will use the International Swap Dealers Association (ISDA) swap documentation as supplemented and amended in accordance with the recommendations of the Authority's senior management team, Bond Counsel and the independent financial advisor. The swap agreements between MEFA and each of its qualified counterparties shall include payment, term, security, collateral, default, remedy, termination and other terms, conditions and provisions as MEFA, in consultation with Bond Counsel and the independent financial advisor deems necessary.

VII. PROCUREMENT OF DERIVATIVE FINANCIAL PRODUCTS AND RELATED TRANSACTIONS

The Authority has utilized both competitive bidding and negotiated procurements for historical Derivative Financial Products. The benefits of competitively bidding versus direct negotiation will be assessed on a case by case basis for each applicable Derivative Financial Product. Factors to be considered are whether the proposed Derivative Financial Product is non-proprietary or generally available in the marketplace or if it has customized or specific attributes designed on MEFA's behalf that would make it difficult or impracticable to competitively bid. In a competitively bid procurement, MEFA reserves the right to award all or a percentage of the proposed trade to one or multiple parties to achieve economic or risk management goals. For both competitively and negotiated procurements, the execution of any Derivative Financial Product shall require a review and written analysis by the Authority's independent financial advisor that concludes that the terms and conditions reflect a fair market value of such Derivative Financial Product as of the date and time of its execution.

VIII. TERM AND NOTIONAL AMOUNT OF DERIVATIVE FINANCIAL PRODUCTS

MEFA, through a vote by the MEFA Board, shall determine the appropriate term for any Derivative Financial Product on a case-by-case basis. In connection with the issuance of bonds or notes, the term of the Derivative Financial Product agreement between MEFA and a qualified Derivative Financial Product counterparty relating to such bonds or notes shall not extend beyond the final maturity date of such bonds and the notional amount shall not exceed the principal amount of the related bonds. When issuing variable rate notes or bonds, the term of the bonds will be determined by MEFA and driven by current market conditions and economic goals, but in no instance will the maturity date be greater than the legislatively authorized maximum number of years as determined by Bond Counsel.

IX. TERMINATION PROVISIONS

A decision to terminate a Derivative Financial Product should in general produce a benefit to the Authority, either through the receipt of a payment from the counterparty or if the termination payment is made by MEFA, create a more beneficial asset to liability balance sheet position, as determined by MEFA. The Authority shall determine if it is advantageous for MEFA to terminate a Derivative Financial Product and shall have the authority to terminate or reverse Derivative Financial Products, including the early redemption or optional call of variable rate bonds or notes per the related resolution provisions.

Prior to terminating any Derivative Financial Product that is not a variable rate note or bond, MEFA and the independent financial advisor shall evaluate whether it would be more economical for MEFA to enter into a replacement Derivative Financial Product, as a means of offsetting any termination payment that may be due. Any payment due from MEFA to a counterparty to terminate a Derivative Financial Product shall be made from available Authority revenues and the process for termination will be approved by the MEFA Board. An independent financial advisor will provide to MEFA a fair market value opinion for the amount paid by MEFA to the counterparty in terminating a Derivative Financial Product. The execution of the approved termination process will be reported to the MEFA Board at its next meeting.

X. COLLATERALIZATION

In connection with a Derivative Financial Product, the Authority may require that the counterparty provide collateralization or other credit enhancement to secure any or all of the counterparty's payment obligations under the Derivative Financial Product. When collateralization is determined to be appropriate, such collateralization will be subject to a set of eligibility requirements and haircuts as established by the Authority in consultation with the independent financial advisor.

Any collateral provided must comply with the collateralization provisions established by MEFA or the rating agencies in the associated ISDA Master agreement(s). MEFA senior management, Bond Counsel and the independent financial advisor shall structure the preferred approach on a case-by-case basis.

XI. POST ISSUANCE MONITORING AND REPORTING

MEFA's senior management team will provide a written report to the MEFA Board regarding the status of all Derivative Financial Products at least on a yearly basis and shall include the following information:

- Highlights of all material changes to Derivative Financial Products entered into by MEFA since the last report.
- The estimated mark-to-market value of each of MEFA's outstanding Derivative Financial Products.
- For each Derivative Financial Product counterparty, MEFA shall provide the total notional amount and the remaining term of each Derivative Financial Product. MEFA will include its non-Derivative Financial Product exposure to each counterparty, including investment agreements and any other contractual relations.
- The long-term unsecured and unsubordinated credit rating of each Derivative Financial Product counterparty, guarantor and credit enhancer insuring Derivative Financial Product payments, if any.
- Actual collateral posted by each Derivative Financial Product counterparty, if any, under each Derivative Financial Product agreement and in total by that Derivative Financial Product counterparty.
- Information concerning any default by a Derivative Financial Product counterparty under a Derivative Financial Product agreement with MEFA, and the results of the default, including but not limited to the financial impact on MEFA, if any.
- A summary of any Derivative Financial Products that were terminated.
- Any other information relating to any Derivative Financial Product prepared for disclosure per the advice of Bond Counsel, the independent financial advisor or the Authority's Auditors.

XII. ACCOUNTING PRACTICES

With respect to each Derivative Financial Product, the Authority shall adhere to applicable Governmental Accounting Standards Board (GASB) guidelines for the accounting treatment of Derivative Financial Products.